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IN THE

Supreme Court of the United States

OCTOBER TERM, 2001

OLEH WERES

Petitioner,

v.

NANCY WERES

Respondent.

Petition for Writ of Certiorari to the California Court of Appeal, District 1

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The U.S. Court of Appeals, 5th Circuit has ruled that copyrights acquired during marriage are separate property owned and controlled by the artist-spouse, but the net economic benefits therefrom are divisible community property under Louisiana's community property regime. Most cases on point from several states accords with this decision in application to patents as well as copyrights, commonly apportioning more than half of future benefits to the inventor/author spouse in recognition of post-marital efforts that may be needed to realize benefits.

California courts hold that the patents or copyrights themselves, as well as the benefits flowing from them are community property to be divided equally at dissolution of marriage, giving the other spouse equal powers over the patent or copyright as tenants-in-common and precisely half of the postmarital economic benefits. This principle has been affirmed in the case at bench.

Petitioner agrees that his former spouse should receive an equitable portion of future benefits from the marital patents. The questions presented, therefore, are:

1) Should the treatment of patents and copyrights in marriage be uniform nationwide?

2) During marriage and after dissolution, should titular ownership and control of the patent or copyright remain entirely with the inventor/author?

3) After dissolution, should the spouse receive exactly one-half of the economic benefits flowing from the patent or copyright, regardless of postmarital efforts required of the inventor/author to realize these benefits?

4) May a state court transfer an inventor's obligations before his coinventors to inventor's former spouse?

5) Should the same rules apply to patents and copyrights?

PARTIES TO THE PROCEEDING

Oleh Weres, PhD, Petitioner.

Nancy Henning Weres, MD, Respondent.

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Oleh Weres hereby petitions for a writ of *certiorari* to review the judgement of the California Court of Appeal in this case.

OPINIONS BELOW

The opinions below were not published. They are included in the Appendix as Documents 2, 3, 4 and 6.

JURISDICTION

The California Court of Appeal affirmed the decision of the Trial Court on April 23, 2001 in an unpublished decision. The California Supreme Court denied *certiorari* August 15, 2001.

This Court has jurisdiction under 28 U.S.C. § 1257 (a).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Article 1, section 8, clause 3 of the Constitution provides:

"Congress shall have the power ... to regulate Commerce with foreign Nations, and among the several States ..."

Article 1, section 8, clause 8 of the Constitution provides:

"Congress shall have the power ... to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their Respective Writings and Discoveries."

Article 6, clause 2 of the Constitution provides:

"This Constitution, and the laws of the United States which shall be made in pursuance thereof ... shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

Amendment 14, sect. 1, cl. 3 of the Constitution provides:

"... nor shall any State deprive any person of life, liberty, or property, without due process of law ..."

35 U.S.C. §101 provides:

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor ..."

35 U.S.C. §261 provides:

"... [P]atents shall have the attributes of personal property ... Applications for patent, patents or any interest therein shall be assignable in law by an instrument in writing."

California Family Code §760 provides:

"Except as provided by statute, all property, real or personal, wherever situated, acquired by a married person during the marriage while domiciled in this state is community property."

California Family Code §771, subd. (a) provides:

"The earnings and accumulations of a spouse ... while living separate and apart from the other spouse, are the separate property of the spouse."

California Family Code §852, subd. (a) provides:

"A transmutation [from separate to community] of real or personal property is not valid unless made in writing by an express declaration ... by the spouse whose interest in the property is adversely affected."

California Family Code §1100, subd. (d) provides:

"... [A] spouse who is operating or managing a business ... that is all or substantially all community personal property has the primary management and control of the business ... Primary management and control means that the managing spouse may act alone in all transactions ..."

STATEMENT OF THE CASE

1. *Facts of the Case.* Oleh Weres, a chemist, and Nancy Henning Weres, a pediatrician, were married in 1974 and separated February 10, 1996. Respondent was in private practice in Sonoma, California, while Petitioner was, nd continues to be, owner of Sonoma Research Company, located in Napa, California. The only matter tried (commencing July 8, 1999) was disposition of Petitioner's part interest in certain patents and patent applications.[1] The technology represented by the marital patents was, and remains, neither fully developed nor marketable.[2] Since separation, Petitioner has invested practically his entire efforts in trying to perfect the technology described in the patents and make it economically viable.

Evidence and expert testimony presented at the trial indicated that at the date of separation and the date of trial, the patents had no ascertainable pecuniary value.[3] However, Petitioner testified that he intends to keep working on these technologies in the hope and expectation that eventually they

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[1] The three patents obtained during marriage relate to an electrochemical process for purifying wastewater, primarily on Naval vessels and in machine shops (RT 25:18-27:27; 101:2-6;256:22-257:6; CT 216-227). A fourth patent resulted from an application filed just prior to separation; it describes a method for increasing the power output of electric power plants (RT 105:3-18). A minority community interest in a fifth patent filed two years after separation is also involved (RT 12:9-17; 544:4-545:4). In all cases, Petitioner owns a partial interest in the patents, together with co-inventors who rely on Petitioner to advance and represent their interests as well as his own (RT 82:5-25; 109:2-23; 509:4-19).

[2] Unrefuted testimony at RT 31:10-33:4; 59:17-23; 61:1-5; 64:23-65:4; 74:12-17; 93:3-20; 99:19-23; 105:19-106:7; 106:25-108:3; 265:22-25.

[3] Unrefuted documentary evidence at CT 471-489; CT 490-493. Testimony at RT 41:21-23; 51:16-52:3; 62:12-63:13; 275:4-10; 267:27-268:3.

will become commercially viable.[4]

The parties agreed and the courts below found that the technology described in the patents could become quite valuable if perfected and successfully commercialized. Petitioner received $373,613 in external funding (mostly from US Government agencies) for research and development related to the technologies before the date of separation, and an additional $924,440 in funding and commitments between the date of separation and date of trial. This funding support documents the faith that expert third parties have placed in Petitioner's abilities to perfect the technologies, and shows that the specific issues in this case are neither moot nor hypothetical.

The basic facts of the case summarized above were undisputed. Such "factual" disagreements as there were amounted to speculation about the future,[5] imaginative reading of the transcript,[6] and simple misstatements of fact.[7]

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[4] Unrefuted testimony at RT 59:24-60:1; 104:22-105:2; 265:26-266:1; 531:25-532:10; 536:22-537:2.

[5] See fn. 10 below.

[6] For example, the California Court of Appeal accepted Respondent's contention that "there is substantial evidence in the record that the marital patents could become valuable by the technological advancements of researchers other than Petitioner" (p. 76 in the *Appendix*). In fact, the testimony cited establishes only that other companies probably are working on different, competing water purification technologies (RT 99:19-100:7), and that some years ago other companies patented distantly similar electrodes that serve entirely different industrial applications (RT 270:19-271:5; 272:4-16).

[7] In her *Answer to Petition for [California] Supreme Court Review* at p. 27, Respondent asserted she had supported Petitioner while he worked on the patents. This assertion is totally untrue, and conflicts with the record; for example, in 1995 (the last year before separation) Petitioner earned $98,753 (CT 380) while Respondent earned $64,299 (CT 373, 381).

In any event, the matters disputed are not dispositive of the federal issues.

2. *Proceedings Below.* At trial in Napa County Superior Court, Petitioner requested one of two decisions: (1) award the patents to Petitioner and reimburse the community for unreimbursed efforts and expenses invested in developing and patenting the technology during the marriage ($84,482), or (2) award the patents to Petitioner and award Respondent a fraction of future benefits arising therefrom commensurate with the community's contribution to bringing the technology in the patents to the point of realizing benefits. These offers were set forth in detail in a document titled *Settlement Offers regarding Intellectual Property* which the trial court accepted into evidence and is included in the *Appendix* to this *Petition* as Document 1.

Respondent asked the Court to divide ownership of the patents and future benefits in kind, give her equal authority over the patents, register her half-interest with the US Patent Office, and leave allocation and distribution of future benefits under the jurisdiction of the Court.

The Trial Court found the instant case to be one of first impression where the issues are primarily legal, and the facts little disputed:

> "Each side has argued the applicable legal principles articulately and the issue, oddly enough in today's high tech age, appears to be one of first impression." (*Notice of Tentative Decision*, p. 46 in the *Appendix*) ... "Well, are the facts really in dispute here? The impression is that the dispute is really more of a legal dispute over how do you put a value on something that is at this point somewhat intangible." (RT 14:16-21) ... "I don't think anybody is contending that it had any market value. ... And that's the problem. What do I do with it in a marital dissolution?" (RT 52:22-27) ... "... what I think is primarily a legal issue of how to divide

them up?" (RT 257:15-20)

On October 13, 1999 the Trial Court issued a *Notice of Tentative Decision* (*Appendix*, Document 2), ruling entirely in favor of Respondent. Respondent's counsel prepared the *Statement of Decision* (*Appendix*, Document 3) and the *Further Judgement on Reserved Issues* (*Appendix*, Document 4) which were filed January 18, 2000. Each spouse was awarded an undivided half-interest in the patents and future benefits as tenants-in-common with all provisions as requested by Respondent. Petitioner was given no credit for his post-separation efforts, investments and hardship which continue to be needed to bring the technology in the patents to the point of realizing benefits. The Court reserved "jurisdiction over the valuation and allocation issues until such time as the issue is ripe for adjudication" (*Appendix*, p. 46).

On March 10, 2000, Petitioner filed notice appealing the Court's *Decision* and *Judgement on Reserved Issues*. On April 23, 2001, the California Court of Appeal (1st Dist., Div. 1) affirmed the judgement of the Trial Court in its entirety (*Appendix*, Document 6). Subsequently, Petitioner petitioned the California Supreme Court for *certiorari*. The California Supreme Court extended the time for deciding the petition by thirty days, but the petition was denied August 15, 2001 (*Appendix*, Document 7).

3. *Marriage of Worth and California Law.* In California and the other community property states (Arizona, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington) property acquired during marriage through the efforts of either spouse belongs to the community. In most other states, it becomes "marital property," which is treated much the same as community property at dissolution.

Few cases have dealt with patents or copyrights in relation to marriage. The most influential case on point is *In re Marriage of Worth*, 195 Cal.App.3d 768 (1987) which has been cited by courts nationwide. In *Worth*, the California Court of

Appeal (1st Dist., Div.1, the same District and Division as affirmed in the instant case) ruled that copyrights acquired during marriage were community property and so remained if not otherwise allocated in the property settlement. The post-marital benefits issuing from community property copyrights, including proceeds from infringement suits, were found also to be divisible community property, to be divided equally between the spouses. *Marriage of Worth* is silent regarding control and management of the copyrights, implicitly referring this question to the general principals that govern community property in California; that is, the spouses have equal authority over the copyrights. Earlier, the California Court of Appeal had ruled in *Lorraine v. Lorraine,* 8 Cal.App.2d 687 (1935) that the patents issuing from applications filed during the marriage were presumed to be community property. *Lorraine* has also been relied on by courts in other states. Post-separation efforts of the inventor/author spouse were not an issue in either case.

The precedential value of both cases is, in fact, tenuous, because the issues actually decided were much narrower than the broad principles that these cases are cited for. In *Worth,* the parties had agreed by stipulation to divide royalties received for books written during marriage, and the court actually divided only the contingent proceeds (which never materialized) from a copyright infringement suit. In *Lorraine,* wife had invested separate property funds in husband's inventive efforts and the parties had agreed to divide contingent future benefits between them.

Marriage of Worth has been widely discussed and much criticized in law reviews and treatises; for example: D. Nimmer, *Copyright ownership by the marital community: evaluating Worth,* 36 UCLA L.Rev. 383 (1988); M.J. Perlstein, *Copyright as Community Property: Questions About Worth Are More Than Merely Trivial,* No. 11 Enter. Law Rep. 3 (1988); F.M. Nevins, Jr., *When an Author's Marriage Dies: The Copyright-Divorce Connection,* 37 J. Copyright Soc. USA 382 (1990); C.M.

Roberts, *Worthy of Rejection: Copyright as Community Property,* 100 Yale L.J. 1053 (1991); *Nimmer on Copyright,* §6A.03[C] and n. 50 (1992); D. Polachek, *The 'Un-Worth-y' Decision: The Characterization of Copyright as Community Property,* 17 Hastings Comm./Ent. L.J. 601 (1995); McCahey *et al., Valuation and distribution of marital property,* §23.07 (2000).

Most of the criticisms are relevant to patents and *Lorraine* as well as to copyrights and *Worth.* Petitioner has relied upon and quoted several of the commentaries in his arguments set forth below. Most of these commentators agree that the spouse should receive an equitable share of the economic benefits of a copyright obtained during marriage, but object to giving the spouse equal control over the copyright, during marriage and even more so after dissolution. Proposals for dividing the community interest in the copyright at dissolution include:

(i) Award ownership and complete control of the copyright to the author, and compensate the community for the value of the copyright at date of separation, or

(ii) Award ownership and complete control of the copyright to the author, and give the spouse a fraction of postmarital income from the copyright that fairly reflects the extent to which effort needed to realize economic benefits was invested during the existence of the marital community.

4. *Decisional Law of Other States.* The courts of other states have generally agreed that a patent or copyright acquired during marriage belongs to the marital community, and have sometimes relied on *Worth* and *Lorraine.* However, most courts outside of California have exercised their discretion in a manner which compensates for *Worth's* defects, which were illustrated by the instant case.

All analogous cases from other states involving patents or copyrights where the author/inventor spouse's post-marital efforts were needed to realize benefits were adjudicated following the second approach suggested by the commentators

and set forth above: give the inventor/author ownership and complete control of the patent/copyright, but give the spouse a fraction of the post-marital benefits commensurate with the post-marital efforts that may be required of the inventor/author to realize these benefits. Petitioner's second proposal to settle the patent issue accords with this approach (*Appendix*, pp. 38-41).

In *In re Marriage of Monslow*, 259 Kan. 412, 912 P.2d 735 (1996) the Kansas Supreme Court affirmed giving inventor-husband full ownership of patents and 60% of future proceeds from selling or licensing the patents, to be divided after reimbursing him for expenses related to further development, marketing and defense of the patents, with a generous imputed rate of return to compensate him for the large financial risk involved (*Id.* at 741).

The inverse situation was adjudicated in *McDougal* v. *McDougal*, 38 USPQ2d 1842 (Mich. Sup. Ct. 1996). When he married, husband owned some patents that had no apparent value. While married, husband, with wife's help, pursued infringers, and these efforts resulted in highly beneficial licensing agreements. The Michigan Supreme Court ordered net royalties from the licenses concluded during marriage divided between the parties, but refused to award wife any part of the actual patents or proceeds from licenses that might be concluded after dissolution.

In *In re Marriage of Heinze*, 257 Ill.App.3d 782, 631 N.E.2d 728 the Illinois Court of Appeal awarded husband 25% of net royalty income from five books that wife had written during marriage, and explicitly stated that royalties from a sixth book written after the marriage were entirely separate property of the author-wife. The award to husband was limited to 25% in recognition of wife's continuing efforts to promote sales of the marital books.

In *Gallo v. Gallo*, 184 Conn. 36, 440 A.2d 782 (1981) the Connecticut Supreme Court awarded the wife 20% of royalties

from husband's books written during marriage for a period of five years following dissolution (*Id.* at 788).

Hazard v. Hazard, 833 S.W.2d 911 (Tenn.App. 1991) provides the nearest precedent to the instant case. Inventor-husband had licensed a medical device during marriage. The device was successfully test marketed, but had been withdrawn from market after a patient had died (*Id.* at 913). The Tennessee Court of Appeal affirmed an award of 20% of future royalties to wife. As in the instant case, the invention needed further development to realize royalty income.

If the marital patent or copyright is already licensed and generating royalties at date of separation with minimal further effort required of spouse, this approach would give each spouse 50% of net royalties. In *Dunn* v. *Dunn*, 148 Utah Adv. Rep. 30, 802 P.2d 1314 (1990) the patents were already licensed. The Utah Court of Appeal allowed husband to be compensated for his postmarital efforts and awarded half of net royalties remaining to wife.

The ruling in the instant case accords with one published case only, with very different facts. In *Kinchen, Wife of Howes* v. *Howes*, 436 So.2d 689 (Louis.App.1983) the husband had attempted to conceal the existence of the patent from the wife by fraudulent means and the Louisiana courts awarded wife one-half undivided interest in the patents and future royalty payments. In *Howes* the invention had been licensed shortly after the dissolution and was already earning royalties.

5. *The Rodrigue Decisions.* In *Marriage of Worth, supra* 195 Cal.App.3d at 774 the California Court of Appeal recognized that by action of the federal copyright statute (17 U.S.C. §201(a)) a copyright initially vests in the author spouse, but concluded that " ... the copyright is automatically transferred to both spouses by operation of the California law of community property." [emphasis added]

In *Rodrigue* v. *Rodrigue*, 55 F.Supp.2d 534 (E.D.La. 1999)

(herein-after *Rodrigue-1*) the Federal District Court ruled that copyrights obtained by the painter-husband during marriage were his separate property. The District Court agreed with husband's arguments that federal statute preempts Louisiana's community property law, and relied heavily on this Court's holding in *Bonito Boats* v. *Thunder Craft Boats*, 489 U.S. 141 (1989) which emphasized national uniformity as one of the fundamental purposes of the Patent and Copyright Clause

In *Rodrigue-1* at 542-543 the District Court considered and explicitly rejected the *Worth* court's arguments, holding that 17 U.S.C. §201(e), which prohibits involuntary transfer of a copyright, precludes "automatic" transfer of a copyright to the community. The *Rodrigue-1* court at pp. 543-544 rejected the argument that by living in a community property state the author-spouse implied voluntary transfer of copyrights created during marriage to the community. Finally, the court suggested that Congress act to allow states to treat the economic benefits from a copyright obtained in marriage as divisible community property, while leaving the copyright itself the property of the author spouse, and under his management (*Id.* at 546-547).

Subsequently, *Rodrigue-1* was modified in *Rodrigue* v. *Rodrigue*, 218 F.3d 432 (5th Cir. 2000) [hereinafter *Rodrigue-2*] wherein the U.S. Court of Appeal found a way to do just what the District Court had suggested, ruling that copyrights acquired during marriage in Louisiana are separate property completely to be owned and controlled by painter-husband, while the net economic benefits that flow from the copyrights are divisible community property. The Circuit Court ordered this one modification only, and the rest of the *Rodrigue-1* decision remains good law.

The ruling in *Rodrigue-2* accords with case law from several states summarized above, excluding California and Louisiana. The *Rodrigue* courts did not address the issue of post-marital efforts. The copyrights were already commercially successful

at date of separation, and wife had asked the state court to award her 30% of gross proceeds from the marital copyrights, suggesting recognition that husband's post-marital efforts would be needed to realize benefits.[8]

The painter/husband subsequently petitioned this Court for *a certiorari* review of *Rodrigue-2*, but his petition was denied (00-1059).

6. *Federal Questions Presented Below.* Petitioner's arguments at trial relied on California state law grounds only. At that time, *Rodrigue-1* was under appeal, and could not be used. *Rodrigue-2* issued when the instant case was already under appeal. However, the proposals offered by Petitioner at trial accord with case law from other states and with *Rodrigue-2*.

Arguments based on the *Rodrigue* decisions, on the Patent and Copyright Clause, on the Supremacy Clause, on the patent statute, and on case law of other states were presented to the California Court of Appeal, and subsequently in Petitioner's *Petition for [California] Supreme Court Review*. The Commerce Clause and Due Process Clause were not relied on below, but are implicit in certain arguments that were presented on state law grounds (quoted in the *Appendix*, pp. 57-60).

Those sections of Petitioner's *Appellant's Opening Brief* in the California Court of Appeal which deal with Federal questions are included in the *Appendix* as Document 5. Most of the cases from other states reviewed above were reviewed in Petitioner's *Appellant's Opening Brief*. The same arguments were presented in Petitioner's *Petition for [California] Supreme Court Review*. Thus, the California Court of Appeal and the California Supreme Court were well aware of the federal questions involved and the decisional law of other states, and had ample opportunity to address them. Indeed, Petitioner

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[8] Federal District Court, E.D. Louisiana, Case No. 95-2862 (*Rodrigue-1*), *[Plaintiffs' Original] Complaint*, filed August 30, 1995, para. 27 on p. 7.

explicitly recommended the instant case to the California courts as an appropriate vehicle to reconcile California decisional law (as set forth in *Lorraine* v. *Lorraine* and *Marriage of Worth*) with the *Rodrigue* decisions.

The California Court of Appeal acknowledged the scholarly critiques of *Worth* and briefly noted Petitioner's arguments based on the U.S. Constitution, Federal statute, and the *Rodrigue* decisions, but rejected them, affirming *Worth*:

> Finally, Husband invokes federal patent law. He contends that the trial court's award of one-half interest in the marital patents to Wife violates federal law - specifically, the patents and copyrights clause [sic] ... and the federal patent statutes ...
>
> But in the analogous area of community property ownership interests in copyrights, we have previously held that federal law does not preempt California community property law. (*In re Marriage of Worth, supra,* 195 Cal.App.3d at pp. 776-778.) ...
>
> We are persuaded that despite scholarly criticism, *Marriage of Worth* controls. Federal law does not preempt California community property law regarding the ownership of community property patents under the facts of this case, and a family law court may award an equal, undivided interest in a community property patent to the spouse who did not perfect the patent. Under the unique facts of this case where the value of the patents is unknown, community property interests can coexist with federal patent law under the retained jurisdiction of the trial court. This case does not present a direct and irreconcilable clash between state and federal law warranting preemption. The trial court's decision does not place stumbling blocks in the way of fostering creative inventiveness. (*Appendix*, pp. 79-81).

The California Court of Appeal discounted case law on point from other, common law, states:

> In its discretion, the trial court in *Monslow* awarded complete ownership in the patents to the spouse who perfected them, and awarded the other spouse a share in future income. As we read *Monslow*, this discretionary division was not an inevitable result of the court's conclusion that patents could be divided without determination of present value. (*Appendix*, p. 76, fn. 5)
>
> Husband's considerable reliance on *Hazard v. Hazard* ... is misplaced. ... In affirming, the Court of Appeals of Tennessee ... found the device a marital asset subject to division, and concluded that the 20 percent share of future income was "an equitable method of making a division of this particular asset." ... [I]t is not even clear from the opinion whether Tennessee is a community property state. As far as we know, it is not. ... In any event, the Tennessee appellate court's terse affirmance of a particular division as "equitable" does not dictate a reversal of the California trial court in the case before us. (*Appendix*, p. 77, fn. 6)

7. *Summary and Prayer for Relief.* The decision below comprises five logical elements, all of which were explicitly or implicitly present in *Marriage of Worth*:

1. Respondent will share in the future benefits from the patents that Petitioner received during the existence of the marital community;
2. Respondent will receive exactly one-half of future economic benefits from these patents, regardless of how much post-marital effort is required of Petitioner to perfect the technologies in them and realize the benefits;
3. Respondent is awarded an undivided half-interest in the

patents as tenant-in-common in perpetuity, and her interest is to be registered with the US Patent and Trademark Office;

4. Respondent and Petitioner are given precisely equal authority over the patents, and Respondent has veto power over anything that Petitioner may wish to do with the patents or the technologies protected by them; and
5. The Trial Court reserves jurisdiction "to allocate and divide any and all benefits that may be received as a result of the ... patents ... or the technologies described therein and/or protected thereby between the parties" (*Further Judgement on Reserved Issues, Appendix*, p. 56).

Petitioner has no quarrel with the first provision which is fair and solidly grounded in state law. However, the other four provisions are extraordinary measures rarely applied to other kinds of assets. The second provision conflicts with Cal. Fam. Code §771, subd.(a) because it credits the community with accumulations resulting from Petitioner's post-separation efforts. The last three provisions conflict with public policy favoring a clean break when a marriage is dissolved.

The juxtaposition of these four unusual provisions amounts to promulgation of a state rule specific to patents and copyrights, which damages several Federal interests.

Petitioner prays that this Court direct the courts below to revise the instant judgement to accord with the Fifth Circuit's decision in *Rodrigue-2* and the several decisions of other state courts cited above: award Petitioner ownership and full control of the patents, and award Respondent a fraction of future benefits commensurate with the community's contribution to realizing these benefits.

Or, in the alternative, let Petitioner reimburse the community estate for community efforts and investments sunk in the patents, and be done with it.

REASONS FOR GRANTING THE WRIT

Lorraine v. *Lorraine* and *Marriage of Worth* define the status of patents and copyrights in marriage under California's community property regime. In *Rodrigue-2* the Fifth Circuit U.S. Court of Appeal ruled that the net economic benefits of a copyright obtained in marriage are divisible community property, but let stand the District Court's decision in *Rodrigue-1* that, for important federal reasons, ownership and management of the copyright must remain with the painter spouse. Petitioner has consistently asked the California courts for a decision that accords with *Rodrigue-2* and cases on point from several other states, but the state courts below have affirmed the trial court's decision, which conflicts with the *Rodrigue* decisions. Therefore, *certiorari* should be granted under Rule 10 (b) of this Court.

Because patents and copyrights are creatures of the U.S. Constitution and federal statute, laws that govern their ownership are important matters of public policy, and should be uniform throughout the land. This Court has not previously ruled on how patents and copyrights should be treated in marriage and at dissolution, and the conflicting rulings below indicate the need for guidance by this Court. Therefore, *certiorari* should be granted under Rule 10 (c) of this Court.

Petitioner respectfully notes this Court's rule set forth in *Hisquierdo* v. *Hisquierdo*, 439 U.S. 572 (1979) wherein California community property law was held preempted by the Railroad Retirement Act:

> State family and family-property law must do major damage to clear and substantial federal interests before the Supremacy Clause will demand that state law be overridden. (*Id.* at 581)

Specifically in application to patent law, this Court earlier held:

> These laws, like other laws of the United States enacted

> pursuant to constitutional authority, are the supreme law of the land. ... When state law touches upon the area of these federal statutes, it is familiar doctrine that the federal policy may not be set to naught, or its benefits denied by state law. ... This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power. (*Sears, Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225 (1964) at 229).

In *Rodrigue-1, supra*, 55 F.Supp.2d at 538 the District Court applied the rule set forth in *Hisquierdo* and concluded that Louisiana community property law conflicts with the federal copyright statute and does "major damage to the substantial federal interest in providing exclusive rights to authors," thereby warranting preemption (*Id.* at 541). [9]

Petitioner respectfully submits that *Worth* and *Lorraine*, insofar as they divide ownership and management, also do major damage to federal interests related to patents as well as copyrights, warranting preemption and override by this Court. Application of this Court's well-established balancing tests reinforces the conclusion that *Worth* should be overridden, because there is, in fact, a less damaging approach available to the state courts below: implement rules that accord with the *Rodrigue* decisions and cases on point from several other states.

I. Certiorari Should be Granted to Promote National Uniformity Governing Ownership of Patents and Copyrights.

In *Bonito Boats* v. *Thunder Craft Boats, supra*, 489 U.S. 141 at 162 this Court stressed the need for national uniformity in

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[9] The *Rodrigue*-2 court rejected George Rodrigue's claim that dividing net benefits of the copyrights would cause "major damage" for purposes of the *Hisquierdo* test (218 F.3d at 440). However, the *Rodrigue*-2 court did not criticize and let stand the District Court's ruling that ownership and management of the copyrights should remain with George.

regards to patents:

> One of the fundamental purposes behind the Patent and Copyright Clause of the Constitution was to promote national uniformity in the realm of intellectual property.

Because the monopoly confirmed by patents and copyrights is coextensive with the United States, they are inherently objects of interstate commerce. *Marriage of Worth* effectively established a set of rules that apply only to copyrights and patents. This Court has long held:

> Whatever subjects of this power [to regulate commerce] are in their nature national, or admit only of one uniform system, or plan or regulation, may justly be said to be of such a nature as to require exclusive legislation of Congress. (*City or Burbank* v. *Lockheed Air Terminal Inc.*, 411 U.S. 624 (1973) at 625, quoting *Cooley* v. *Board of Wardens*, 12 How. 299 (1851).)

Petitioner submits that the rules governing patents as property "are in their nature national," whereby *Worth* and *Lorraine* should be preempted by a literal construction of 35 U.S.C. 101, at least in regard to titular ownership and management of patents obtained in marriage.

Nimmer, *supra*, 36 UCLA L.R. at 396-397 and other commentators have correctly noted that California's establishment of rules of ownership (set forth in *Marriage of Worth*) which apply in one state only threatens "Balkanization" of the law. A prospective licensee from another state trying to license a copyright or patent from an author/inventor in California would not be sure, for example, if the author/inventor's spouse need also approve the license.

In *Rodrigue-1* the Federal District Court quoted *Bonito Boats* and relied on Nimmer's arguments in support of its ruling overriding *Worth*:

> To deem copyrights to be community property would

> risk inflicting major damage on the goals of predictability and certainty of copyright ownership, national uniformity, and avoidance of the practical difficulties of determining and enforcing an author's rights under the differing laws of the various states. (*Rodrigue-1* at 546)

The California Court of Appeal's observation that California is a community property state is immaterial to this case. The Fifth Circuit encompasses two community property states, and the *Rodrigue* decisions explicitly preempted Louisiana's community property regime. The decisions from common law states cited above all set out from the assumption that a copyright or patent acquired during existence of the marital community is part of the marital estate which is to be divided in the marital property settlement. In *Marriage of Heinze, supra,* 631 N.E.2d at 730-731 the Illinois Court of Appeal explicitly relied on *Marriage of Worth* as valid precedent, noting that equal division of "marital property" at dissolution is much the same as division of "community property." In *Marriage of Monslow, supra,* 912 P.2d at 744 the Kansas Supreme Court relied on *Lorraine* v. *Lorraine.* The distinction between "community property" and "marital property" is immaterial to the questions presented here, and should not stand in the way of national uniformity.

II Certiorari Should be Granted Because *Worth* and *Lorraine* Cannot be Reconciled with Federal Statute

In *Bonito Boats* v. *Thunder Craft Boats, supra,* 489 U.S. 141 this Court overruled a Florida statute which granted boat-makers a degree of patent-like protection for their designs, because:

> [The Florida law] thus enters a field of regulation which the patent laws have reserved to Congress. The patent statute's careful balance between public right and private monopoly to promote certain creative activity is a scheme of Federal regulation so pervasive

> as to make reasonable the inference that Congress left no room for the states to supplement it. (*Id.* at 167) [internal quotes and ellipses deleted]

Polacheck, *supra*, 17 Hastings Comm/Ent L.J. at 620-621, fn. 115 correctly concluded:

> Applying the reasoning in *Bonito Boats* to the facts of *Worth*, preemption of state community property law is necessary since fundamental goals of the Constitution, those of fostering incentive for authors to create and enabling national uniformity, are frustrated. California community property law protects the property right of the non-author spouse by vesting both spouses with co-ownership of the copyright. This directly conflicts with Federal law, which states that the author of a work has certain exclusive rights for a period of time.

The patent statute provides for transfer of patent applications and patents, but ordinarily transfer occurs in a manner which upholds the fundamental goals of fostering creativity and promoting effective exploitation of the technology. Commonly, a patent right is transferred by assignment or license for monetary consideration or under the terms of an employment agreement or research contract if the invention is a work for hire. In all cases, the assignee or licensee gains his rights by rewarding the inventor, and the patent right ends up with someone willing and able to exploit the technology.

In the instant case, the courts below have relied on *Worth* to award Respondent one-half of the patent right, whereby equal control and veto power over the patents have passed to a person who is neither able to exploit the technology nor to develop it further. Instead of furthering invention, the courts below have placed an anchor on the inventor's ability to advance the technology and commercialize it. This result is directly contrary to the public policy expressed and embodied in the patent statute and the Patent and Copyright Clause of

the Constitution.

The Federal District Court in *Rodrigue-1* rejected the *Worth* court's theory of automatic transfer to the marital community, relying on 17 U.S.C. §201(e) to conclude that ownership of copyright cannot be transferred against the author's will. An analogous argument applies to patents.

Federal courts have consistently held that "since a patent is a creature of federal statutory law, it may be transferred only in the manner provided by such law" (*University Patents, Inc.* v. *Kligman*, 762 F.Supp. 1212 (E.D.Pa. 1991) at 1219) "... which the state statutes cannot affect" (*Jewett* v. *Atwood Suspender Co.*, 100 F. 647 (D.Verm. 1900) at 648). 35 US Code §261 specifies that "applications for patent, patents or any interest therein, shall be assignable in law by an instrument in writing." California Family Code §852, subd. (a) specifies that a transfer of separate property to the community "... is not valid unless made in writing by an express declaration ...". Thus, both Federal and California law bar the "automatic" transfer of a patent to the marital community unsupported by a written instrument executed by the inventor or his legal representative. As with copyrights, a patent obtained in marriage remains separate property of the inventor.

This Court long ago concluded that a patent or copyright could be transferred by court order *in personam* but not *in rem*, because the patent right is coextensive with the United States and thereby not entirely within the jurisdiction of any court (save this Court) (*Ager* v. *Murray*, 105 U.S. 126 (1881) at 130-131). Because the California community property statute acts *in rem* (it defines the nature of property obtained in marriage), it cannot affect the automatic transmutation into community property posited in *Worth*.

In *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*, 527 U.S. 627 (1999) at 642 this Court recently affirmed the principle that

> A patent for an invention is as much property as a patent for land. As such, they are surely included within the "property" of which no person may be deprived by a State without due process of law.

In principle, a patent might be assigned to the community by signature of an officer of the court acting pursuant to a court order *in personam*, but it is difficult to see how such a court order might arise without violating Fourteenth Amendment due process.

III Certiorari Should be Granted Because *Worth* Favors Decisions that Damage the Value of the Patent Monopoly

The advantages of the patent monopoly are both public and private: the public benefits because the progress of science and the useful arts is promoted, and the inventor benefits by receiving potentially valuable property; that is, a patent. Nimmer, *supra*, 36 UCLA L.Rev. at 412 asked the state legislature and the courts to develop a legal framework that respects this principle governing copyrights as a species of community property:

> [T]he goal must be to preserve the rights of authors' spouses while not impinging on the authors' ability effectively to exploit their copyrights. Any scheme that lessens the possibility of such exploitation not only harms both the author and the nonauthor-spouse, but also undermines Congress' purpose in enacting the copyright laws: to encourage authorship. This factor militates once again towards [Federal] preemption.

Testimony at trial indicated that the a decision following *Marriage of Worth* will (1) impair the value of the patents, thereby impairing the private benefit of the patents, and (2) may hinder commercial exploitation of the technology in them,

thereby obstructing realization of the public benefit.[10] By favoring decisions that damage both the public and the private advantages of the patent monopoly, *Worth* frustrates the intent of the patent statute and the Constitution.

Roberts, *supra*, 100 Yale L.J. at 1062 correctly noted that *Worth* acts as a disincentive to further creativity by denying authors full control over how to best exploit their works. The instant case illustrates the problem, because the decision below has given Respondent veto power over Petitioner's exploitation of the technologies protected by the marital patents, which is the focus of his business and his work.

Roberts also noted that the divided authority over marital copyrights favored under *Worth* can seriously hurt the value of the artist's post-separation works, and limit his post-separation earnings; basically, the spouse can be expected to maximize her benefits from the marital copyrights, even if it hurts the value of future, separate property copyrights that may follow (*Id.* at 1064).

This possibility is especially dire in relation to patents, as the instant case shows. Petitioner's ongoing research is likely to generate additional, cumulative patents (RT 63:24-64:5) as usually happens when new technology is being developed. In order to license his future separate property patents, Petitioner will need Respondent's agreement to license the marital patents as well (RT 64:6-22). Thereby, the decision below has granted Respondent power over Petitioner's future efforts related to the marital patents until they expire: in 2012 and 2016. In order to maximize her benefits from the marital

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[10] A patent attorney/expert witness testified that the reaction of a potential licensee to joint ownership of the patents by Petitioner and Respondent would be negative (RT 82:26-83:12). Petitioner agreed, noting that having Respondent's name on title to the patents registered with the USPTO would raise questions and complicate negotiations (RT 541:5-11). This evidence was uncontroverted.

patents, Respondent may choose to exercise her veto power in a way that decreases Petitioner's earnings from his future separate property patents, effectively transferring post-separation earnings from the separate estate to the community estate. Continuing disputes between Petitioner and Respondent are likely to interfere with commercial exploitation of the technologies protected. This unhappy result is entirely in keeping with *Worth*.[11]

IV Certiorari Should be Granted Because *Worth* Burdens Interstate Commerce

Roberts, *supra*, 100 Yale L.J. at 1066-1072 noted that *Worth* effectively regulates and interferes with the orderly transfer of copyrights in interstate commerce:

> By declaring a community property interest in copyright ownership, California forces citizens of other states [who have licensed or acquired copyrights from California residents], doing business with other non-California residents, to alter their method of doing business at substantial cost in order to protect

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[11] The courts below recognized the potential problems outlined above, but gave them little credence:

> Moreover, there is no reasonable basis to assume deadlock. As the trial court observed, Husband's assumption of Wife's obstructionism "is the one weak leak in the argument, . . . that you are attributing to her a motive to veto or cause problems . . . There is no common sense or evidence, nor would there be any motive that I can see, why she would want to do anything to interfere with the commercial viability. To the contrary, I would think she would want to do everything to make it a success. That is the whole point of this." (California Court of Appeal quoting the Trial Judge, *Appendix* at p.75).

This rosy prediction is based on the unrealistic assumption that former spouses will be able to function amicably as business partners.

> themselves from the regulatory effect of the statute as interpreted in *Worth*. The community property statute also burdens non-California citizens who have co-authored works with California residents and wish to do business involving their works with other non-California residents. Moreover, buyers dealing with Californians may have to pay more to secure the nonauthor spouse's approval; therefore, California essentially makes buyers pay a premium to California nonauthor spouses. When one state treats copyright ownership as community property, those whose business includes the transfer of copyrights must take precautions in drafting their contracts to try to avoid the potential problems created by that treatment.

The community property law of California discriminates against interstate commerce because married inventors and authors will find it easier to deal with potential licensees domiciled in California to avoid the conflict of laws. The fact that California is the largest state in population and economy, relatively isolated geographically, and pre-eminent in technology as well as entertainment creates a predisposition to disregard the other states, compromising the internal political checks which might otherwise incline California courts to pay more heed to persuasive authority from other states and the Fifth Circuit.

In *Edgar* v. *MITE Corporation*, 457 U.S. 624, 640 (1982) and again in *Brown-Forman Distillers Corp.* v. *New York State Liquor Authority*, 476 U.S. 573, 579 (1986) this Court has ruled that a state cannot directly regulate interstate commerce. Roberts, *supra*, argues that this corollary of the Commerce Clause must preempt *Worth*, just as it preempted certain laws of Illinois and New York in *Edgar* and *Brown-Forman*, because Worth "reaches out" and forces persons outside of California to conduct their business affairs in a certain way, if a copyright or patent created by a married citizen of California is involved.

If the regulatory impact of *Worth* upon interstate commerce is considered merely incidental, the balancing test set forth by this Court in *Pike* v. *Bruce Church, Inc.*, 137 U.S. 137 (1970) properly applies:

> Where the statute regulates evenhandedly to effectuate a legitimate local public interest, and its effects on interstate commerce are only incidental, it will be upheld unless the burden imposed on such commerce is clearly excessive in relation to the putative local benefits ... [T]he extent of the burden that will be tolerated will of course depend on the nature of the local interest involved, and on whether it could be promoted as well with a lesser impact on interstate activities. (*Id.* at 142)

In *Dean Milk Co.* v. *City of Madison, Wis.*, 340 U.S. 349 (1951) this Court formulated this principle in a manner most directly applicable to the instant case. This Court ruled that, even in the exercise of an unquestioned state power [to protect public health], a state cannot discriminate against interstate commerce or burden it, "if reasonable nondiscriminatory alternatives, adequate to conserve legitimate local interests, are available." (*Id.* at 354).

In relation to a patent or copyright obtained in marriage, the legitimate state interest is to ensure that the marital community is equitably reimbursed for its efforts and investments related thereto. This legitimate interest can surely be satisfied by a reasonable alternative with a lesser impact on interstate commerce: the general approach that is set forth in *Rodrigue-2* and generally followed by the courts of other states. For this reason, the onerous provisions of the decisions below, which follow *Marriage of Worth*, should be overridden.

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V Certiorari Should be Granted Because *Worth* Works to the Detriment of Third Parties

The instant case illustrates how *Marriage of Worth* can work to the detriment of third parties. Under the agreements with his coinventors (Exhibit 22/V, RT 105:6-18, RT 109:2-23) Petitioner is responsible for managing the patents for mutual benefit of all of the inventors. Petitioner's relatively large ownership share of the four patents and one patent application under the terms of these agreements (80:20, 80:20, 80:20, 34:22:22:22 and 55:20:20:5) was fixed on the assumption that he would bear the primary responsibility for promoting and commercializing the technologies protected. Petitioner's coinventors retain a large stake in the future success of the marital patents; if Petitioner's ability to exploit the patents is hindered, they will suffer as well. This question is especially acute in relation to Petitioner's coinventors on the power plant patents, because they are citizens and residents of Ukraine and thereby totally dependent upon Petitioner to manage these US patents for their benefit as well as his own (RT 105:3-25).

By giving Respondent equal authority and veto power in all matters related to the patents, the courts below have effectively assigned part of Petitioner's obligations before his coinventors to Respondent. As there is no evidence nor reason to believe that Respondent (a pediatrician) can fulfill any part of Petitioner's obligations toward his coinventors, this action is to their detriment. In light of Respondent's equal authority and veto power over the patents, Petitioner's coinventors cannot be assured of Petitioner's effective management of the patents on their behalf which they bargained for.

Certainly, the courts have the power under equity to reform a contract between private parties, but the legality of such court order presupposes Fourteenth Amendment procedural due process. In the instant case, Petitioner's coinventors were deprived of what they bargained for <u>without</u> due process. In *Barrows* v. *Jackson*, 346 U.S. 249 (1953) this

Court set forth the conditions that would permit a party appearing before this Court to plead violation of the Constitutional rights of a third person (*Id.* at 255-257), and these conditions are satisfied in the instant case:

1. The decision of the courts below was to the detriment of Petitioner as well as to the detriment of his coinventors, and
2. It would have been difficult if not impossible for Petitioner's coinventors to assert their case before the Trial Court, which was, after all, adjudicating a division of community property that procedurally and logically involved Petitioner and Respondent alone.

During marriage, problems of this sort are largely avoided by virtue of Cal. Family Code §1100, subd. (d) which grants a spouse operating a community property business effectively complete control of the business and its assets. The same statutory provision interacts perversely with *Marriage of Worth* to create just such problems when the marriage is dissolved. There is no question that Petitioner had full authority to conclude the agreements with his coinventors, and had a free hand to fulfill his responsibilities thereunder without interference from Respondent while married. But following dissolution of the marriage, the courts below relied on *Worth* to grant equal authority and veto power over the patents to Respondent, compromising Petitioner's ability to perform under the agreements to the detriment of his coinventors.

This Court can correct this problem by setting forth rules governing patents and copyrights in marriage which accord with *Rodrigue* and the decisional law of the other states, whereby the inventor/author spouse will have unclouded title and full authority to manage the marital patents/ copyrights after dissolution as well as during marriage, while sharing the benefits of the patent/copyright with ex-spouse in an equitable manner.

CONCLUSION

In addition to the several Federal questions and Constitutional issues argued above, there is an entirely practical reason why *certiorari* should be granted in this case.

Congress recognized that the law of copyrights and patents is a complex field properly entrusted to specialists. Federal District Courts have original jurisdiction over cases under the copyright and patent statutes, and patent case appeals are restricted to the Federal Circuit and this Court. Patent attorneys must be specially trained, tested and registered with the Patent and Trademark Office.

However, any member of the state bar, and any Family Court judge can litigate and adjudicate the disposition of copyrights and patents in a marital dissolution. While the state bar and state bench are highly skilled and experienced in relation to their accustomed subject matter, most of them have no training in intellectual property law, don't own a book on the subject, and encounter a case that deals with copyrights or patents once in a decade, if that often. In the instant case, the Trial Judge plainly expressed his expectation of appellate review and his desire to facilitate the work of the appellate court.[12]

Petitioner respectfully asks this Court to provide the state courts with the guidance they need regarding patents and copyrights in marriage. The instant case provides this Court with a vehicle to build upon the work of the Fifth Circuit, and to institute a sensible and Constitutionally correct rule,

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[12] "... to be perfect honest, I'm sort of looking upward in this case because it's a case that's somewhat unusual. I won't say it's completely novel, but it's unusual and I could well see whatever part[y] is dissatisfied with the Court's ruling wanting to have the appellate court have a good report is important and I think probably at this point oral argument might be appropriate. I think it would be more helpful for the reviewing court to get your thoughts ..." (RT 551:3-17) Also see the quotations on pp. 5-6.

uniform throughout the land.

Respectfully submitted,

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Appendix Starts Here

DOCUMENT 1

[Petitioner's] Settlement Offers regarding Intellectual Property prepared July 1, 1999

(Explanatory Note: This document was admitted into evidence at the trial, and was appended to Petitioners "Appellant's Opening Brief" to the California Court of Appeal. Throughout this document, the designations "Respondent" and "Petitioner" have been reversed to make the usage consistent with the Petition.)

Introduction

Petitioner is joint owner of record with others of the US Patents and US patent applications identified in Table 1.

Table 1. US Patents partly owned by Petitioner

Patent No.	Filing Date	Issue Date	Expiration Date	See Note (a)
Electrochemical				
5,364,508	3-16-94	11-15-94	11-12-12	100
5,419,824	2-10-94	5-30-94	11-12-12	100
5,439,577	11-10-94	8-8-95	11-12-12	100
Power plant				
5,735,125	1-22-96	4-7-98	1-22-16	100
US Pat.Appl. 09/037,902	3-10-98	pending	1-22-16	25

(a) Percent of Petitioner's Interest Belonging to Community when filed

The number of hours of Research & Development (R&D) effort that Petitioner has invested in the development of these patents are set forth in Table 2. Table 2 also sets forth the best estimates of additional R&D effort that will need to be invested by Petitioner in order to bring the technologies to the point of delivering benefits, as defined below.

Table 2. Summary of R&D Effort by Petitioner (man-hours) invested in the technologies needed to bring them to the point of delivering benefits

	Electro-chemical	Power Plant	Aggre-gate
Preseparation			
Preseparation totals	2,707 (32%)	149 (14%)	2,856 (30%)
Postseparation			
Date of Separation (2-10-96) to 5-31-99	3,050	365	3,415
Additional R&D effort reliably budgeted	1,652	288	1,940
Estimate of further effort needed to bring technologies to the point of delivering benefits	1,042	288	1,330
Postseparation totals	5,744 (68%)	941 (86%)	6,685 (70%)
Total hours of R&D effort required of Petitioner	**8,451**	**1,090**	**9,541**

The numbers in Table 2 are based on the most complete and accurate time card records, financial records, and contract files in Petitioner's possession.

Settlement Offer No. 1

Petitioner estimates that the aggregate value of community monies and unreimbursed efforts invested prior to February 10, 1996 in developing and obtaining the patents and patent application identified in Table 1 and any related intellectual property totaled approximately $84,482. In consideration of the community's investment in developing this intellectual property, Petitioner offers to transfer to Respondent Independent Retirement Account monies in the amount of $42,241, and Respondent shall therefor drop any and all claims to ownership of these patents and any related intellectual property that may be owned by Petitioner and to any benefits related to said patents or related intellectual property that may accrue to Petitioner.

This settlement offer is consistent with the Court's ruling in *In re Marriage of Zaentz* (1990) 218 CA 3rd 154 which had to do with the community's interest in a successful film (*Amadeus*) which the husband had produced. At the time of separation, the film project was approaching completion. Husband had spent two years working on the film, and in addition to having served as producer, had put community assets up as collateral to secure a $6,000,000 bank loan, and had served as "completion bonder"; that is, the person responsible for finding financing needed to complete the project. Husband had been compensated $300,000 for his efforts plus per diem.

At the time of trial approximately two years after separation, the movie had grossed $50,000,000 and the net profit was variously estimated at between $8,000,000 and $14,000,000. Evidence had been presented in trial court to the

effect that the husband's stock in his company had gained substantial value as a result of the movie by the time of trial. Husband's nephew who performed legal and tax work for husband's company estimated that husband's company would realize a profit of nearly $2.6 million from its share of "Amadeus", and would also received some $3.2 million in interest and deferred rental fees.

Expert witnesses testified that the husband's fee for producing the movie was well below industry standards, and that just his role as "completion bonder" warranted an additional consideration of $500,000. The Appeals Court affirmed the trial court's decision that the community was entitled to additional compensation for the husband's efforts and the risks borne by the community in making the movie, stating:

> " ... the [trial] court found ... that the community was entitled to be reimbursed for husband's production duties and financing contribution in the amount of $600,000 over and above the $300,000 and per diem paid to husband.
>
> Whether or not the movie was completed and receiving income at the time of separation, the time and artistic energies expended occurred in some appreciable degree during the marriage. Husband devoted the better part of two years during the marriage working only on the production of 'Amadeus'. Thus, the community would be entitled to at least an equitable portion of the income generated as a result thereof. ... The evidence showed that all of the filming and nearly one-third of the editing, and execution of some of the distribution agreements, were completed by November 1983. Accordingly, the amount of profits aggregating through 1985 was an appropriate circumstance for the trial court to consider in arriving at its factual determination."

In *Zaentz* the court did not try to prorate husband's gains from the film according to his efforts before and after separation; in fact, the trial court supported the wife's demand that the community receive adequate compensation for husband's efforts during the marriage. While the trial court failed to document it's calculation supporting award of $600,000 additional compensation to the community, the Appeals Court judged this award reasonable, and, in fact, this amount was consistent with expert witness testimony which held that husband's declared compensation of $300,000 was low by industry standards, and that just his role as "completion bonder" would warrant compensation of in the amount of $500,000. The fact of large profits generated by the movie after separation and before trial was considered by the Appeals Court only to the extent of deciding that an award of additional $600,000 to the community was reasonable, and that, in fact, husband had the money to share with his ex-wife.

In *Van Camp vs. Van Camp* (1921) 53 CA 17 the court came to a conclusion similar to the *Zaentz* court's regarding the community's share of husband's income and capital appreciation from a company that had been a successful, ongoing concern since before the marriage. The Appeals Court ruled that an executive salary that might have been paid to another doing husband's job in his place was adequate compensation to the community. (Adams & Sevitch interpret *Zaentz* and *Van Camp* similarly in § G.83 and suggest factors to be documented and considered to establish equitable compensation.)

Petitioner's case is, of course, very distinct from *Zaentz* in that the economic success of his technologies is nowhere near assured near to time of trial, and income from the patents is $0, not $50,000,000.

It is not contested that during the marriage and prior to separation Petitioner expended effort to finance, develop, and

attempt to market the technologies described in the patents with the expectation of future returns. Most of this effort was compensated to the community as an equitable salary paid to Petitioner directly and indirectly from assorted government grants, but some $84,482 of effort and expenses were not compensated to the community. If it is assumed that eventually these long-term endeavors on Petitioner's part bear fruit, *Zaentz* suggests that the community should be compensated in the same amount. Such compensation to the community would also accord with the *Van Camp* approach.

If, on the other hand, Petitioner's efforts ultimately come to naught, it might be proper for the community to be compensated for efforts and resources "imprudently invested and lost" - again $84,482. In contrast to the husband in *Zaentz*, prior to separation Petitioner did not guarantee large loans with community funds or take any extraordinary risks which would warrant compensation to the community above and beyond and equitable salary and actual uncompensated cash outlays.

Definitions related to Settlement Offers 2 and 3 below.

It is recognized that since the Date of Separation (February 10, 1996) Petitioner has had continuing out-of-pocket expenses related to the patents and patent applications identified in Table 1, including various US Patent Office fees (for example, filing fees, issue fees and maintenance fees), international filing fees, and legal fees related to obtaining these patents and protecting against infringement or misappropriation. It is also recognized that Petitioner has obligations to pay third parties a portion of royalties or other benefits that he may receive in the event that the patents are licensed or exchanged for stock. In case royalties or other benefits are received by Petitioner related to these patents and patent applications, the out-of-pocket expenses shall first be reimbursed to Petitioner and the monies paid as royalties or otherwise to third parties shall be subtracted, and then a part of the net royalties or other benefits

remaining shall be transferred to Respondent as set forth in Settlement Offers 2 and 3 presented below. In all cases, percentage of royalties or other benefits offered to Respondent are percentages of net royalties or net other benefits that are received by Petitioner after out-of-pocket expenses and royalties due to third parties have been subtracted.

The patents identified in Table 1 related to one or the other technology (electrochemical or power plant) shall be deemed to have reached the point of "delivering benefits" when one of the following conditions has been satisfied: (a) At least one of the patents related to the given technology has been sold, (b) at least one of the patents related to the given technology has been licensed and royalties of at least ten thousand dollars have been received by the inventors, or (c) at least one of the patents related to the given technology has been exchanged for publically traded stock. The two technologies are to be considered separately for the purposes of this paragraph; for example, if the electrochemical patents are licensed and at least ten thousand dollars has been received in royalties, the electrochemical technology shall be deemed to have reached the point of delivering benefits, but no such determination shall apply to the power platted technology in this case.

By "related patents or other related intellectual property" we mean any patent or other intellectual property developed by Petitioner or otherwise coming into his possession after February 10, 1996 which is protected by at least one claim of at least one of the patents or the patent pending identified in Table 1.

///

Settlement Offer No. 2

Settlement Offer No. 2 recognizes that the ultimate future value of the patents identified in Table 1 will be the result of Petitioner's efforts begun prior to the Date of Separation, and continuing long beyond the Date of Separation. Therefore, benefits ultimately received by Petitioner might reasonably be apportioned according to the amount of effort invested before versus after the Date of Separation. The hours of R & D effort devoted by Petitioner to developing the two technologies are summarized in Table 2. Two other apportioning rules were considered (uncompensated efforts and expenses invested; total investments, including grants and contracts as well as unreimbursed efforts and investments); apportionment by hours of R & D effort gives the result most favorable to Respondent.

(1) In recognition of the fact that 32% (thirty-two percent) of Petitioner's R&D effort needed to bring the electrochemical technology described in US Patents 5,364,508 and 5,419,824 and 5,439,577 to the point of delivering benefits was invested prior to the Date of Separation (February 10, 1996), Petitioner agrees to transfer to Respondent 16% (sixteen percent) of net royalty payments received by Petitioner for licensing these patents and/or 16% (sixteen percent) of net money received by Petitioner for selling or assigning them, if that should occur. If the patents are exchanged for publically traded stock, Respondent shall receive 16% (sixteen percent) of stock received by Petitioner. Respondent shall be responsible for related income and/or capital gains taxes. The same terms shall apply to net royalty payments or proceeds from selling the Japanese patent pending which is derived from US Patent 5,364,508. Petitioner's obligations under this paragraph shall end when these three US Patents expire on November 12, 2012. For example,

0.50	Fraction of Community's share due to Respondent
× 32%	Percentage of value of these three patents at point of delivering benefits due to preseparation efforts of Petitioner
16 %	Percentage of net benefits received by Petitioner being offered to Respondent

(2) In recognition of the fact that 14% (fourteen percent) of Petitioner's R&D effort needed to bring the power plant technology disclosed in US Patent 5,735,125 to the point of delivering benefits was invested prior to the Date of Separation (February 10, 1996), Petitioner agrees to transfer to Respondent 7% (seven percent) of net royalty payments received by Petitioner for licensing this patent and/or 7% (seven percent) of net money received by Petitioner for selling or assigning it, if that should occur. If this patent is exchanged for publically traded stock, Respondent shall receive 7% (seven percent) of stock received by Petitioner. Respondent shall be responsible for related income and/or capital gains taxes. The same terms shall apply to net royalty payments or proceeds from selling the Russian patent pending which is derived from US Patent 5,735,125. Petitioner's obligations under this paragraph shall end when this US Patent expires on January 22, 2016. For example,

0.50	Fraction of Community's share due to Respondent
× 14%	Percentage of value of this patent at point of delivering benefits due to preseparation efforts of Petitioner
7 %	Percentage of net benefits received by Petitioner being offered to Respondent

(3) In recognition of the facts that (a) 14% (fourteen percent) of Petitioner's R&D effort needed to bring the power plant technology disclosed in US Patent Application 09/037,902 to the point of delivering benefits was invested prior to the Date of Separation (February 10, 1996), and (b) the Community's interest in said US Patent Application comprises 25% of Petitioner's total interest in it, Petitioner agrees to transfer to Respondent 1.75% (one and three-quarter percent) of net royalty payments received by Petitioner for licensing the patent expected to issue from this Patent Application and/or 1.75% (one and three-quarter percent) of net money received by Petitioner for selling or assigning it, if that should occur. If this patent is exchanged for publically traded stock, Respondent shall receive 1.75% (one and three-quarter percent) of stock received by Petitioner. Respondent shall be responsible for related income and/or capital gains taxes. Petitioner's obligations under this paragraph shall end when the patent expected to issue from this US Patent Application expires on January 22, 2016. For example,

0.50	Fraction of Community's share due to Respondent
0.25	Community's interest in this patent application
× 14%	Percentage of value of this patent application at point of delivering benefits due to preseparation efforts of Petitioner
1.75%	Percentage of net benefits received by Petitioner being offered to Respondent

(4) Ownership of the patents shall remain with Petitioner and Petitioner's coinventors under the terms and conditions set forth in the Joint Owners' Agreements between them. Consistent with the community's relatively small interest in the patents set forth in Table 2, Petitioner and Petitioner's

coinventors shall have the right to sell or license the patents as they see fit, without prior approval of Respondent. However, Petitioner shall inform Respondent of any such transaction within ten days of its execution, and shall remit to Respondent her portion of monies received within ten days of receiving them. Petitioner acknowledges a fiduciary responsibility to Respondent to negotiate and execute any such transactions in the same manner and on the same terms as though Respondent were not in the picture, and Petitioner's net benefits were entirely his own.

(5) This agreement applies only to division of future royalties and/or sales proceeds that Petitioner may receive which are derived from US Patents 5,364,508 and 5,419,824 and 5,439,577 and 5,735,125, US Patent Application 09/037,902, and the related Japanese and Russian patents pending that are identified above.

(6) The products and benefits of all Research and Development efforts expended after February 10, 1996 are acknowledged to be the separate property of Petitioner.

Settlement Offer No. 3

Settlement Offer No. 3 is a variation of Settlement Offer No. 2 which addresses Respondent's concern that if Petitioner licenses or sells the patents in a bundle with other related patents or related intellectual property, he may arrange the deal to undervalue the original patents in which the Community has an interest in order to deny Respondent her fair share. In this settlement offer, Respondent is granted a smaller percentage of benefits from the entire bundle which includes the original patents together with related patents and other related intellectual property developed after the Date of Separation.

(1) Petitioner anticipates that the electrochemical patents shall be licensed or sold in a bundle together with additional related patents and other intellectual property developed after

the Date of Separation which are therefore Petitioner's separate property. Petitioner estimates that the value of the original three electrochemical patents (US Patents 5,364,508 and 5,419,824 and 5,439,577) will represent no more than 25% of the value of the entire bundle.

(2) Petitioner agrees to transfer to Respondent 4% (four percent) of net royalty payments received by Petitioner for licensing any bundle including one or more of US Patents 5,364,508 and 5,419,824 and 5,439,577 and/or 4% (four percent) of net money received by Petitioner for selling or assigning such a bundle, if that should occur. If a bundle of technology including at least one of these patents is exchanged for publically traded stock, Respondent shall receive 4% (four percent) of stock received by Petitioner. Respondent shall be responsible for related income and/or capital gains taxes. The same terms shall apply to net royalty payments or proceeds from selling the Japanese patent pending which is derived from US Patent 5,364,508. Petitioner's obligations under this paragraph shall end when these three US Patents expire on November 12, 2012. For example,

0.50	Fraction of Community's share due to Respondent
0.25	Fraction of the value of the entire bundle licensed, sold or exchanged corresponding to the original three patents
× 32%	Percentage of value of original three patents at point of delivering benefits that is due to preseparation efforts of Petitioner
4 %	Percentage of net benefits received by Petitioner being offered to Respondent

(3) Petitioner anticipates that the power plant patents shall be licensed or sold in a bundle together with additional related patents and other intellectual property developed after the Date of Separation which are therefore Petitioner's separate property. Petitioner estimates that the value of the original power plant patent and the community's share of the patent application pending (US Patent 5,735,125 and US Patent Application 09/037,902) will represent no more than 40% of the value of the entire bundle.

(4) Petitioner agrees to transfer to Respondent 2.8% (two and eight tenths percent) of net royalty payments received by Petitioner for licensing any bundle including US Patent 5,735,125 or the patent which issues from US Patent Application 09/037,902 and/or 2.8% (two and eight tenths percent) of net money received by Petitioner for selling or assigning these patents, if that should occur. If these patents are exchanged for publically traded stock, Respondent shall receive 2.8% (two and eight tenths percent) of stock received by Petitioner. Respondent shall be responsible for related income and/or capital gains taxes. The same terms shall apply to net royalty payments or proceeds from selling the Russian patent pending which is derived from US Patent 5,735,125. Petitioner's obligations under this paragraph shall end when these US Patents expire on January 22, 2016. For example,

///
///

0.50	Fraction of Community's share due to Respondent
0.40	Fraction of the value of the entire bundle licensed, sold or exchanged corresponding to the original patent plus the Community's 25% interest in the patent application pending
× 14%	Percentage of value of the original patent plus Community's share of the application at point of delivering benefits that is due to preseparation efforts of Petitioner
2.8 %	Percentage of net benefits received by Petitioner being offered to Respondent

(5) Ownership of the patents identified in Table 2 and any related patents or other related intellectual property shall remain with Petitioner and Petitioner's coinventors under the terms and conditions set forth in the Joint Owners' Agreements between them. Consistent with the community's relatively small interest in the patents set forth in Table 2, Petitioner and Petitioner's coinventors shall have the right to sell or license the patents as they see fit, without prior approval of Respondent. However, Petitioner shall inform Respondent of any such transaction within ten days of its execution, and shall remit to Respondent her portion of monies received within ten days of receiving them. Petitioner acknowledges a fiduciary responsibility to Respondent to negotiate and execute any such transactions in the same manner and on the same terms as though Respondent were not in the picture, and Petitioner's net benefits were entirely his own.

(6) The products and benefits of Research and Development efforts expended after February 10, 1996 which are not related to the patents identified in Table 1 are acknowledged to be the separate property of Petitioner.

DOCUMENT 2

Notice of Tentative Decision

ENDORSED
Filed 10-13-99
Jose O. Guillen
Court Executive Office
M. OELLIEN
Deputy

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA IN AND FOR THE COUNTY OF NAPA

In Re the Marriage of:
Petitioner: NANCY WERES
and
Respondent: OLEH WERES
_____/

No. 76505

NOTICE OF TENTATIVE DECISION

This matter initially came before the court for trial commencing July 8, 1999 and concluding July 26, 1999. The matter was deemed submitted as of that date. The sole contested issue submitted to the court for decision is the proper method of dividing the community interest in certain patents which respondent perfected during the marriage. The patents involve a unique process for treating wastewater (in the case of the electrochemical patents) and for obtaining extra energy out of steam from power plants (in the case of the

power plant patent). None are currently commercially viable yet all could have huge value if future research and technology lead to a commercially viable application of the process they embody. The difficulty in dividing and valuing is that these assets have little or no market value at the time of trial and will require post separation research and development on the part of respondent (or others) to ever have significant value. Respondent contends that the court should either find pursuant to Family Code section 2552(a) that the patents have no value at the time of trial or alternatively that the court apply the reasoning of *In re Marriage of Zaentz, 218 CA 3rd 154* and compensate the community for efforts expended by the respondent during the marriage. Valuation according to this approach would range between a low of "0" and a high of approximately $80,000. Respondent has extensively analyzed the valuation issue in various settlement proposals which were introduced into evidence at trial. Petitioner on the other hand would like to share in the future potential value of these patents rather than "cash out". She argues that *In Re Marriage of Biddle, 52 CA 4th 396* and *Zaentz, supra*, as she construes the case, strongly suggest that the court should divide these assets "in kind". Each side has argued the applicable legal principles articulately and the issue, oddly enough in today's high tech age, appears to be one of first impression.

Having considered the evidence and the legal authorities cited, the court has concluded that the line of cases represented by *Marriage of Biddle, supra* and *Marriage of Kilbourne, 232 CA 3rd 1518* are persuasive. Considering the equities in this matter and the enormous potential value that these patents may represent at some point during the remaining twelve years of their legal life, the court believes that an "in kind" division is the most appropriate method of division. Accordingly each party is awarded fifty percent in the community valued [sic] the patents and the court will reserve jurisdiction over the valuation and allocation issues until such time as the issue is ripe for adjudication. Counsel for petitioner shall prepare a

statement of decision if requested and a judgment consistent herewith.

Dated: October 13, 1999

/s/

Phillip A. Champlin, Judge
Napa Superior Court

DOCUMENT 3

Statement of Decision

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Filed JAN 18 2000
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COURT EXECUTIVE OFFICER
BY /s/ J. Flohr
DEPUTY

SUPERIOR COURT OF CALIFORNIA
COUNTY OF NAPA

CASE NO. 76505

In Re Marriage of :)
Petitioner: NANCY WERES)
and)
Respondent: OLEH WERES)
)

STATEMENT OF DECISION

This matter came to trial commencing July 8, 1999, and concluded and was submitted for decision on July 26, 1999.

The Court having filed its Notice of Tentative Decision on October 13, 1999, now issues the following Statement of Decision:

The sole contested issue submitted to the Court for decision was the proper method for dividing the community interest in certain patents which were perfected during the marriage, and an interest in one (1) patent application where a substantial amount of the work was performed by the Respondent during the marriage. In the case of the electrochemical patents, the patents involve a unique process for treating waste water. Those patents are as follows:

Patent No.	Filing Date	Issue Date	Exp. Date	Respondent's Ownership Int.
5,364,508	03/16/94	11/15/94	11/12/12	100%*
5,419,824	02/02/94	05/30/94	11/12/12	100%*
5,439,577	11/10/94	08/08/95	11/12/12	100%*

While the patents list as the coinventors the Respondent and a Michael R. Hoffman, according to Petitioner's Exhibit 9, Mr. Hoffman and the Respondent entered into an agreement under which the Respondent is entitled to have all of the ownership interest in the patents assigned to him, subject to the obligation to pay a portion of certain revenues to Mr. Hoffman that are obtained from the commercialization of the technology reflected in the patents.

In the case of the power plant technology, the following patents or technologies embodied in a patent application are as follows:

Patent No.	Filing Date	Issue Date	Exp. Date	Respondent's Ownership Int.
5,735,125	01/22/96	04/07/98	01/22/16	34%
09/037,902*	03/10/98	Pending	01/22/16	55%

*US Patent Application

As to the pending patent application, only a portion of the protected claims relates to technology and research done during the marriage. The parties' right to receive benefits from the power plant technology is subject to certain agreements to divide benefits and royalties, as was testified to by the Respondent and is set forth in the Exhibits admitted into evidence.

It appears from the evidence that none of the technology embodied in the foregoing patents and patent applications is currently commercially viable. However, it is equally clear from the evidence that technology may have a tremendous value if future research and technology lead to a commercially viable application of the processes that the patents and patent applications embody.

Respondent contends that the Court should either find pursuant to Family Code Section 2552(a) that the patents have no value at the time of trial, or, alternatively, that the court apply the Respondent's view of the reasoning in *In Re: Marriage of Zaentz* (1990) 218 Cal.App. 3d 154, and compensate the community for efforts expended by the Respondent during the marriage. Valuation using this approach would range between a low of "zero" and a high of approximately $80,000. The Respondent has extensively analyzed the valuation issue in various settlement proposals, which were introduced into evidence at trial. The Court finds that the approach to valuation used by the Respondent does not reflect the true fair

market value of the community property patent rights, as it does not take into account the possibility of the technology having significantly greater value if other or future technology causes the existing technology to be commercially viable. While the additional technological advances may be, and most likely will be, the result of the efforts of the Respondent, it is also possible that such technology may be developed by others as well.

Petitioner, on the other hand, has requested that the ownership interest in the patents be divided in-kind so that she may share in the future potential value of these patents.

Having considered the evidence and legal authorities cited by the parties, the Court has concluded that the line of cases represented by *In Re: Marriage of Biddle* (1997) 52 Cal.App.4th 396, and *In Re: Marriage of Kilbourne* (1991) 232 Cal.App.3d 1518, are persuasive. The Court determines that based upon the evidence presented, the Court cannot make a present determination of the value of the community patent rights, and that merely reimbursing the community for time expended and monies invested during the marriage does not necessarily reflect the asset's fair market value.

Considering the equities in this matter and the enormous potential value that these patents may represent at some point during the remaining twelve (12) years of their legal life, the court believes that an in-kind division is the most appropriate method of dividing these interests. Accordingly, each party should be awarded a fifty percent (50%) interest in the community interests in the patents, and the Court should reserve jurisdiction over the allocation and distribution of any benefits that may be received as a result of those patent rights and make such Orders as are appropriate to ensure that each party receives their one-half (½) share for any such benefits that result from the community patent rights.

The issue of attorneys fees and costs having been bifurcated, the court reserved jurisdiction over those issues.

DATED: 1/13/2000

/s/

PHILIP A. CHAMPLIN

Judge of the Superior Court

DOCUMENT 4

Further Judgement on Reserved Issues

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Filed JAN 18 2000
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COURT EXECUTIVE OFFICER
BY /s/ J. Flohr
DEPUTY

SUPERIOR COURT OF CALIFORNIA
COUNTY OF NAPA

CASE NO. 76505

In Re Marriage of :)
Petitioner: NANCY WERES)
and)
Respondent: OLEH WERES)
_____)

FURTHER JUDGEMENT ON RESERVED ISSUES

The issue of the division of patent rights developed during the parties' marriage came before the Court for trial

commencing July 8, 1999, and concluding July 26, 1999. Petitioner was present and represented by counsel, Fershko, Lewis & Blevans, by Robert E. Blevans. Respondent was present and represented by counsel, Lynn Young. The court issued its Notice of Tentative Decision on October 13, 1999, and has issued a statement of decision. The issue of attorneys fees and costs having been bifurcated, the Court reserves jurisdiction over that issue.

Based upon the evidence, both oral and documentary, presented at the trial, the Court makes the following Orders:

1. Petitioner is hereby awarded an undivided one-half (½) interest as tenant-in-common in any and all rights, title and interest that either party is entitled to with respect to the following patents:

c. With respect to electrochemical technology:

Patent No.	Filing Date	Issue Date
5,364,508	03/16/94	11/15/94
5,419,824	02/02/94	05/30/94
5,439,577	11/10/94	08/08/95

d. With respect to power plant technology:

Patent No.	Filing Date	Issue Date
5,735,125	01/22/96	04/07/98

2. Petitioner is hereby awarded an undivided one-half (½) interest as tenant-in-common in any rights or benefits that may result from that portion of patent application 09/037,902 resulting from work performed during the parties marriage.

3. Respondent is hereby awarded an undivided one-half (½) interest as tenant-in-common in any and all rights, title and interest that either party is entitled to with respect to the

following patents:

a. With respect to electrochemical technology:

Patent No.	Filing Date	Issue Date
5,364,508	03/16/94	11/15/94
5,419,824	02/02/94	05/30/94
5,439,577	11/10/94	08/08/95

b. With respect to power plant technology:

Patent No.	Filing Date	Issue Date
5,735,125	01/22/96	04/07/98

4. Respondent is hereby awarded an undivided one half (½) interest as tenant-in-common in any rights or benefits that may result from that portion of patent application 09/037,902 resulting from work performed during the parties marriage.

5. For the purposes of determining what rights were created and/or existed during the parties' marriage, the date of marriage is determined to be September 1, 1974, and the date of separation is determined to be February 10, 1996.

6. Each party is hereby restrained and enjoined from licensing, transferring, hypothecating, disposing of, or otherwise transferring any interest in the above-referenced patents or the community portion of any rights resulting from the above-referenced patent application without the express written consent of the other party or an Order of Court first obtained.

7. Each party is restrained and enjoined from transferring, disposing of, or disbursing any consideration, payment, or other benefit received resulting from the rights

protected under the above-referenced patents or resulting from any patent resulting from the above-referenced patent application without the express written consent of the other party or an Order of Court first obtained.

8. Each party shall keep the other informed and, as applicable, shall provide the other party with copies of any document relating to any offer to purchase, license or pay any consideration or provide any benefit to either party relating in whole or in part to the rights protected under the above-referenced patents or relating to the technology identified in the above-referenced patent application. Such information shall be provided by the recipient to the other party within five (5) days of receipt.

9. Each party shall sign any and all documents necessary or convenient to register the ownership interests in the patents and any ownership interests resulting from the patent application referred to above with the United States Patent Office. Should either party fail to sign any such document within ten (10) days of its presentation, the court may authorize and order the County Clerk, or other appropriate person, to sign such document in place of the refusing party.

10. The Court specifically retains jurisdiction to allocate and divide any and all benefits that may be received as a result of the above-described patents or the above-described patent application, or the technologies described therein and/or protected thereby between the parties. The Court further retains jurisdiction to make any and all Orders necessary and/or convenient to carry out and enforce the terms and provisions of this judgment.

DATED: 1/13/2000

/s/

PHILIP A. CHAMPLIN

Judge of the Superior Court

DOCUMENT 5

Petitioner's Opening Brief to California Court of Appeals: Sections dealing with Federal Questions

(Most footnotes have been deleted for brevity.)

8. The Trial Court its abused its discretion by limiting Husband's authority over his business.

Husband testified that perfecting and promoting the technologies protected by the patents has been the primary focus of his business since the date of separation, and his income depends on this work (RT 104:22-105:2, 104:11-21, 538:24-539:2). By giving Wife equal authority over the patents, the Trial Court has created a situation whereby the Parties are no longer married and Husband's business (save the patents) has been allocated to him as his separate property. However, he now has less authority to operate his business than he did prior to separation. The Trial Court has abused its discretion by unreasonably burdening Husband's ability to manage his business and make a living.

8.1. Judgement jeopardizes benefits due Husband's coinventors.

Pursuant to his agreements with M.R. Hoffmann (Exhibit 22/V, RT 109:2-23) and the Ukrainians (RT 105:6-18) Husband is responsible for managing the patents for mutual benefit of all the inventors.

Expert witness H.D. Messner testified that the reaction of a potential licensee to joint ownership by Husband and ex-Wife would be negative (RT 82:26-83:12). Husband agreed, noting that having Wife's name on title to the patents registered with the US-PTO would raise questions and complicate negotiations (RT 541:5-11), thereby jeopardizing future benefits due to Husband's coinventors. This evidence was uncontroverted. Wife presented no evidence as to her

intentions or good faith. If Wife and Husband were still married, Fam. Code §1101, subd. (c)(3) and §1101, subd. (c)(4) separately would have barred a court order forcing Husband to register Wife's interest in the patents with the US-PTO even if Husband had failed in his fiduciary responsibility to Wife (of which there is no evidence).

8.2. Trial Court abused discretion by partially assigning to Wife Husband's obligations to coinventors.

By giving Wife equal authority and veto power in all matters related to the patents, the Trial Court has effectively assigned part of the obligations that Husband has towards his coinventors to Wife. California case law recognizes limits to the general rule of freely transferable contractual rights and obligations. In *Farmland Irrigation Co. v. Dopplmaier* (1957) 48 Cal.2d 208,222 the Supreme Court stated:

> "... the duties imposed upon one party may be of such a personal nature that their performance by someone else would in effect deprive the other party of that for which he bargained. The duties in such a situation cannot be delegated. (See *La Rue* v. *Groezinger* (1890) 84 Cal. 281,283-285 ...) Rights likewise cannot be assigned if the assignment would materially impair the nonassigning party's chance of obtaining the performance he expected."

As there is no evidence that Wife can fulfill any part of Husband's obligations toward his coinventors, the Trial Court abused its discretion by giving Wife equal authority over the patents.

8.3. Husband should be given full authority to manage the patents.

D. Nimmer, *Copyright ownership by the marital community: evaluating Worth* (1988) 36 UCLA L.Rev. 383 expressed concern that the equal powers inherently granted to the author's

spouse under the doctrine of community property could impair the value of a copyright by diluting the author's ability to manage this marital asset. Nimmer's advice to the courts was to develop

> "a vehicle similar to [Cal. Fam. Code §1100, subd. (d)], but one that confers absolute rather than primary responsibility upon the author-spouse..." (*Id.* at 413)
>
> "In particular, without too much violence to the institution of marriage, the courts should presume that the author-spouse's consent to sharing author status is contingent on the nonauthor-spouse's consent to ceding full authority over the disposition of the copyright to the author-spouse." (*Id.* at 414)

The intent of Family Code §1100, subd. (d) is to give a married business operator a free hand to manage a community property business for the benefit of both spouses. Family Code §1101, subd. (c)(3) is intended to avoid problems inherent in messy ownership situations, while Family Code §1101, subd. (c)(4) protects third parties from collateral harm. Husband prays that the judgement be reversed and remanded to give him <u>at least</u> as much authority to manage the patents and his business as he would have if still married pursuant to §1100, subd. (d) and §1101, subd. (c). Husband willingly accepts his responsibility to notify Wife prior to licensing or selling the patents and account for the benefits received.

Throughout marriage and after dissolution, a pension plan remains in the name of the employee spouse only. In *Marriage of Brown, supra,* 15 Cal.3d at 849-850 the Supreme Court emphasized that the employee spouse is free to "define ... the nature of the retirement benefits owned by the community" by changing or terminating employment, changing a contribution level, etc.. While the ex-spouse has claim to part of future pension benefits, she has no say over employee spouse's

retirement planning, and no veto power. This rule was recently affirmed and quoted by the Supreme Court in *Marriage of Lehman, supra,* 18 Cal.4th at 179.

Husband respectfully submits that the same rule should be applied to the patents. Husband is willing to give Wife a part of future benefits calculated as set forth in §4.2, but he prays that the judgement be reversed and remanded to grant him complete authority to manage the patents, and that Wife's name not be added to title thereof.

9. The Trial Court frustrated the intent of the US Constitution by impairing the value of the patents and impeding commercialization

Article I, Section 8, Clause 8 of the U.S. Constitution authorizes the United States Congress to establish patents and copyrights:

> "Congress shall have power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries ..."

Patents and copyrights are the only species of property provided for directly by the United States Constitution. Federal courts have jurisdiction over cases arising under the patent law (that is, US Code Title 35 - Patents, hereinafter "35 US Code"), while state courts have jurisdiction over cases arising from incidents of ownership of patents (60 Am Jur 2d, Patents, §§1183-1184, pp. 832-833). However, in exercising their authority over patents, state courts are required by the Federal Supremacy Clause of the U.S. Constitution, Article VI to respect Constitutional intent and Federal Law. The United States Supreme Court has stated that federal policy related to patents "may not be set to naught, or its benefits denied" by state law (*Sears, Roebuck & Co.* v. *Stiffel Company* (1964) 376 U.S.

225 [84 S.Ct. 784, 787]).

In *Farmland Irrigation Co.* v. *Dopplmaier, supra,* 48 Cal.2d at 220 the California Supreme Court defined the limits of state power over patents:

> "The purpose in granting a patent monopoly is to promote progress in science and the useful arts by stimulating invention and encouraging disclosure. So long as state law does not destroy the advantages of the monopoly, it respects the federal purpose, and there is no reason why it should not govern, as with any other property, the incidents attached to the ownership of the patent." [emphasis added]

The "advantages of the monopoly" are both public and private: the public benefits because the progress of science and the useful arts is promoted, and the inventor benefits by receiving potentially valuable property; that is, a patent. In his law review article Nimmer, *supra,* 36 UCLA L.Rev. at 412 asked the California State Legislature and the California courts to develop a legal framework consistent with this principle governing copyrights as a species of community property:

> "... the goal must be to preserve the rights of authors' spouses while not impinging on the authors' ability effectively to exploit their copyrights. Any scheme that lessens the possibility of such exploitation not only harms both the author and the nonauthor-spouse, but also undermines Congress' purpose in enacting the copyright laws: to encourage authorship. This factor militates once again towards [Federal] preemption."

The testimony has established that the Trial Court's judgement will (1) impair the value of the patents, thereby impairing the private benefit of the patents, and (2) may hinder

commercial exploitation of the technology in them, thereby hindering realization of the public benefit. By handing down a decision that damages both the public and the private advantages of the patent monopoly, the Trial Court has abused its discretion by frustrating the intent of the United States Constitution.

10. Recent Federal court decisions defining application of community property laws to copyrights apply to patents as well.

For thirteen years *In re Marriage of Worth* (1987) 195 Cal.App.3d 768 has been accepted throughout the United States as defining the status of copyrights and patents in marriage. In *Marriage of Worth* the Appeals Court (1st Dist., Div. 1) recognized that by action of the federal copyright statute (17 US Code §201(a)) a copyright initially vests in the author spouse, but concluded that " ... the copyright is automatically transferred to both spouses by operation of the California law of community property." [emphasis added] (*Marriage of Worth, supra,* at 774).

In *Rodrigue* v. *Rodrigue* (E.D.La. 1999) 55 F.Supp.2d 534 (herein-after *Rodrigue-1*) the painter-husband asked a Federal District Court to grant a summary judgement declaring him sole owner of several copyrights obtained by him during marriage (protecting commercially successful images of a blue dog) and future derivative works (additional images of the same blue dog). The court ruled in favor of husband, accepting his argument that Federal Statute preempts Louisiana's community property law. The constitutional and public policy arguments used by the court in *Rodrigue-1* are equally applicable to patents:

> "One of the fundamental purposes behind the Patent and Copyright Clauses of the Constitution was to promote national uniformity in the realm of intellectual property" (*Rodrigue-1,* 540, quoting

Bonito Boats v. *Thunder Craft Boats* (1989) 489 U.S. 141 [109 S.Ct. 971, 983] and *Federalist Paper 43*).

"To deem copyrights to be community property would risk inflicting major damage on the goals of predictability and certainty of copyright ownership, national uniformity, and avoidance of the practical difficulties of determining and enforcing an author's rights under the differing laws of the various states." (*Rodrigue-1* at 546)

In *Rodrigue-1* at 542-543 the court explicitly refuted *Worth* court's conclusion, holding that 17 US Code §201(e), which prohibits involuntary transfer of a copyright, precludes "automatic" transfer of a copyright to the community. The *Rodrigue-1* court at 543 also rejected the argument that by living in a community property state the author spouse implied voluntary transfer of copyrights created during marriage to the community. The *Rodrigue-1* court (fn.2 on p.537) borrowed arguments from Nimmer, *op. cit.* and cited several other law reviews that repudiated *Worth*.

Very recently, *Rodrigue-1* was modified in *Rodrigue* v. *Rodrigue* No. 99-30334 (5th Cir. 07/07/2000) [hereinafter *Rodrigue-2*]. The *Rodrigue-2* court confirmed that "Copyright ... vests initially in the author ..." (17 US Code §201(a)), but noted that §106 defines "copyright" as a finite bundle of but five fundamental exclusive rights of reproduction, adaptation, publication, performance and display. Because the statutory definition of copyright does not mention the exclusive right to economic fruits of the copyright, the *Rodrigue-2* court affirmed that legal title and complete control over the copyrights belonged to the author-Husband, but held that the net economic fruits of the copyrights are divisible community property.

US Code Title 35 - Patents states that:

"The true and original inventor must be named in

> the application for a patent and absent some effective transfer or obligation to assign the patent rights, the original inventor owns the rights to the invention." (*University Patents, Inc.* v. *Kligman* (E.D.Pa. 1991) 762 F.Supp.1212, 1218-1219)

Federal courts have consistently held that "since a patent is a creature of federal statutory law, it may be transferred only in the manner provided by such law" (*University Patents* v. *Kligman supra*, 1219) "... which the state statutes cannot affect" (*Jewett* v. *Atwood Suspender Co.* (D.Verm. 1900) 100 F. 647,648). 35 US Code §261 specifies that "applications for patent, patents or any interest therein, shall be assignable in law by an instrument in writing" by "the applicant, patentee, or his assigns or legal representatives ...". A court may order an inventor to assign his patent to enforce a contractual obligation or by decree which

> "... must come from some proceeding akin to a creditor's bill or a petition seeking the aid of the equity side of the court to enforce a judgement at law, <u>through the appointment of a legal representative</u>" (*McClaskey* v. *Harbison-Walker Refractories Co.* (3rd Cir. 1943) 138 Fed.2d 493,495. [emphasis added]

Finally, California Family Code §852, subd. (a) specifies that a transfer of separate property to the community "... is not valid unless made in writing by an express declaration ...".

Thus, both Federal and California law bar the "automatic" transfer of a patent to the marital community unsupported by a written instrument executed by the inventor or his legal representative. As with copyrights, a patent obtained in marriage remains <u>separate property</u> of the inventor.

While the direct effect of *Rodrigue*-2 upon copyrights and its logical extension to patents would appear to preempt California community property law, in fact *Rodrigue*-2 leads to

the same practical remedy that Husband has proposed in §4.2 based on California law, and accords with directly relevant case law from other states reviewed in §5. The application of *Rodrigue-2* to the case at bar would give Husband ownership and complete control of the patents, with the obligation to give Wife a portion of future benefits calculated using an appropriate apportioning formula.

In distinction from copyrights, the wording of the patent statute suggests that the economic benefits from a patent remain separate property as well. 35 US Code §101 allows the inventor to receive a patent, §154 defines what a patent is, and §261 states without qualification "... patents shall have the attributes of personal property." Since a patent is "personal property," ownership of the patent initially given to the inventor must include the economic fruits thereof. Therefore, the reasoning in *Rodrigue-2* does not carry over to patents, and patents are governed by *Rodrigue-1*. This argument supports the conclusion that a patent obtained by a spouse in a community property state remains his separate property, including the economic benefits thereof.

If the Appeals Court agrees with Husband that the more radical holding in *Rodrigue-1* applies to patents, the practical effect can likewise be easily reconciled with California law. Husband would receive complete, unencumbered ownership of the patents and the future benefits thereof, but would be required to compensate Wife for one-half of the community's effort and expenses invested in the patents. This remedy accords precisely with the reimbursement approach that was developed by the California Appeals Court (1st Dist., Div. 1) in *Marriage of Zaentz, supra,* 218 Cal.App.3d 154 and proposed in §4.1 of this brief.

This Court of Appeals has the power to interpret *de novo* Fam. Code §760 in application to patents and copyrights. Statements by Husband's trial counsel characterizing the patents as community property merely restated the

interpretation of that statute by the *Worth* court and in no way should Husband be estopped to have this Court establish his separate property rights in the patents. Husband requests that the Appeals Court ignore his earlier references to the patents as community property[15], and fully consider the argument set forth in this Section. Such consideration will not violate the rule of excluding on appeal grounds not raised at Trial. Comity suggests that the Appeals Court should look to Federal law in this matter. In this case, the Parties, their respective trial counsels, and the Trial Court did not have the benefit of the new Federal case law. *Rodrigue-1,* published just two months before the instant case was tried, was pending appeal. *Rodrigue-2* was not decided until July 7, 2000, long after the trial on this matter.

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[15] "The Court is now being asked to apply the law, as it currently exists in California, to effect a allocation of the community property interests in these acknowledged community property patents." (*Final Argument*, p.2; CT 118:18-19) Similar statement in Husband's *Trial Brief*, p.3 (CT 89:18-19). These statements cannot be construed as an "express declaration ... in writing" effecting transfer of the patents to the community; at that time Husband did not know that the patents were his separate pro-perty, and he certainly would not have conceded such a fundamental point.

DOCUMENT 6

Decision of the California Court of Appeal

NOT TO BE PUBLISHED IN OFFICIAL REPORTS

IN THE COURT OF APPEAL OF
THE STATE OF CALIFORNIA
FIRST APPELLATE DISTRICT
DIVISION ONE

FILED
Court of Appeal - First App. District
APR 23 2001
RON D. BARROW, CLERK
By _____
DEPUTY

In Re the Marriage of NANCY WERES and OLEH WERES

NANCY WERES)
Respondent)
v.)
OLEH WERES)
Appellant)
_____)

A090448
(Napa County
Super. Ct. No. 76505)

In this action for dissolution of marriage, Dr. Oleh Weres (Husband) appeals from a judgment on reserved issues which awarded respondent, Dr. Nancy Weres (Wife), an undivided

one-half interest in four community property patents which were perfected by Husband during the marriage but which lack ascertainable present value. Husband contends that the trial court should have awarded him sole ownership of the patents, with some kind of compensatory cash payment to Wife. We disagree and affirm.

I. FACTS

Husband is a research chemist and Wife is a pediatrician. They were married on September 1, 1974, and separated on February 10, 1996. In 1988, Husband started a small research and development laboratory known as Sonoma Research Company. As the owner and operator of his own research lab, and deriving his income from research grants, Husband developed technology which resulted in his perfecting four patents prior to the date of separation. Three patents involved an electrochemical process for improved purification of certain types of waste waters. The fourth involved a process to improve the output of power plants.

Husband has a 100 percent ownership interest in the three electrochemical patents, and a 34 percent ownership interest in the power plant patent. Husband conceded below that his ownership interest in the four patents is community property. The electrochemical patents expire in 2012; the power plant patent expires in 2016.

The parties stipulated to the division of all community property assets except for the patents. The matter went to trial on the reserved issue of the division of the ownership interest in the patents.[1] In her trial brief, Wife contended that the trial court should divide the patents in-kind and give her 50 percent ownership of the community property interest in the patents

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1. The trial also concerned attorney's fees, costs, and spousal support, matters which are not pertinent to this appeal.

and whatever benefits flow therefrom.

In his trial brief, Husband argued the patents "ha[d] no commercial value," and claimed he needed to continue to "develop 'his' technology to commercial viability": "The only way that these four patents have any value, or will have any value, is if [Husband's] efforts and research continue to bear fruit and eventually result in a commercial product." Husband contended that joint ownership of the patents with Wife would interfere with his ability to market the technology, and that he should be awarded sole ownership with "an equalizing payment to Wife from the parties[']various retirement funds."

Husband submitted detailed alternatives for the computation of this equalizing payment, which boiled down to (1) reimbursing Wife for one-half of the community's unreimbursed time and effort in developing the patents, which Husband computed as a payment to Wife of $42,241; or (2) allocating to Wife a percentage share of future income from the patents reflecting Husband's preseparation efforts in technological development, or a share reflecting both pre-and postseparation efforts. Husband presented these alternatives in a nine-page document called "Settlement Offers [R]egarding Intellectual Property" (Settlement Offers) attached to his trial brief.

At trial, two of Husband's expert witnesses – consulting chemist Spencer Sharp and patent attorney Harold Messner – testified that the electrochemical patents had no commercial value. Sharp testified that the electrochemical patents were for very specialized uses – purification of oily machine shop waste waters and the bilge waters of military ships. The patents worked in principle but Husband's technology "still . . . has a ways to go before it's going to be commercially viable." Messner testified that he was familiar with Husband's technology and there was "no value" to the electrochemical patents; the technology needed work "in order to become theoretically valuable in the future." Messner also testified

that the power plant patent had no present value.

According to Messner, further development of Husband's technology would lead to new patents. Should the technology eventually become commercially viable, the original community property patents and the new patents would be packaged together for possible licensing.

Messner agreed that two people could jointly own a patent, either as joint tenants or tenants in common, and the joint ownership could be registered at the United States Patent Office. But joint patent ownership would result in one party having a veto over the other's ability to license or sell the technology. In Messner's opinion, it was important for only one person to have control over a patent because a prospective licensee would want to "look at one person to be able to make all the decisions." A potential licensee would have a "negative" reaction to a patent jointly owned by a husband and wife.[2]

Husband testified that the patents currently had little value, and would command only a token sales price: "[I]f I were able to find a buyer for them, . . . I wouldn't get very much for them, I'll say that." He did state that the marital patents had some value as 'background patents," because they kept "other people from . . . doing similar research which might result in useful technology."

Husband described the development of his technology as his "life's work for the foreseeable future." Husband noted that Thomas Alva Edison's original patent on the incandescent

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[2] The trial court described this point as "obvious": "[When] you have a few people that have control over something, [and] they can't agree, it's going to make it more difficult in dealing with [a] third party." Wife's attorney then observed, "I think Shakespeare once said, while two men can own a horse, they have to agree who is going to [ride] in front." The exact quote is "an two men ride of a horse, one must ride behind." (Shakespeare, Much Ado About Nothing, act III, scene 5, lines 40-41.)

light bulb "was totally abandoned . . . [as] totally impractical," and that it wasn't until several years and several patents later that Edison made a commercial venture from his original concept.

Husband's "Settlement Offers" document was accepted into evidence as an offer of proof of his testimony regarding his methods of calculating the equalizing payment to Wife should he be awarded sole ownership interest in the patent. Husband testified he wanted the sole ability to negotiate and control the sale of his patents, and that Wife could be compensated by his sole ownership by either compensation for her share of the community – i.e., Husband's – unreimbursed efforts in developing the technology prior to separation, or a percentage of the benefits realized from the original patents proportional to Husband's work developing the technology prior to separation.

Husband confirmed Messner's testimony that any improvement or perfection of the original (i.e., marital) patents would result in new patents. Husband further testified that any new patents would not alter or expand the claims protected under the marital patents as of the date of separation.

The trial court found that the marital patents had some value, but their value was difficult to presently define. The court further found that none of the technology behind the four patents was "currently commercially viable, " but "may have a tremendous value if future research and technology lead to a commercially viable application of the processes . . ." patented by Husband. But the court found that Husband's suggested methods to compensate the community – and therefore Wife – for his preseparation work on the patents "does not reflect the true fair market value of the community property patent rights, as it does not take into account the possibility of the technology having significantly greater value if other or future technology causes the existing technology to

be commercially viable."

The court concluded that it could not make a "present determination of the value of the community patent rights, and that merely reimbursing the community for time expended and monies invested during the marriage does not necessarily reflect the asset's fair market value. [¶] Considering the equities in this matter and the enormous potential value that these patents may represent at some point during the remaining twelve (12) years of their legal life, the Court believes that an in-kind division is the most appropriate method of dividing these interests." Accordingly, the court awarded Husband and Wife an undivided one-half interest as tenant-in common in the community property interests in the patents.[3] The court retained jurisdiction to allocate and divide any and all benefits that might be received as a result of the patents and their underlying technologies.

II. DISCUSSION

Patents obtained during the life of the marital community are community property. (*Lorraine v. Lorraine* (1935) 8 Cal.App.2d 687, 692, 701; cf. *In re Marriage of Worth* (1987) 195 Cal.App.3d 768, 773 [copyright obtained during marriage is community property].) Family Code section 2550 provides that in an action for dissolution of marriage, and absent an agreement between the parties to the contrary, the trial court "shall . . . divide the community estate of the parties equally." The statute "was intended to, and does, vest in the court considerable discretion in the division of community property in order to assure that an equitable settlement is reached." *In re Marriage of Connolly* (1979) 23 Cal.3d 590, 603; see *In re*

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[3] The court also awarded each party a similar interest in any rights or benefits that may result from a pending application for a fifth patent, filed after the date of separation, to the extent that those rights or benefits result from work performed during the marriage.

Marriage of Cream (1993) 13 Cal.App.4th 81, 88.)[4]

Equal division of community property recognizes the California view of the marriage as a partnership, with each spouse contributing equally to the acquisition of property without regard to which spouse actually worked to earn or acquire the property. (*In re Marriage of Brigden* (1978) 80 Cal.App.3d 380, 389.) Thus, equal division, or in-kind division, is the norm in dividing community property. (*Ibid.*) Methods of division other than in-kind division, such as the methods urged by Husband in this case, are permitted only under narrow economic circumstances where an asset cannot be divided without impairment. (Fam. Code, § 2601; *In re Marriage of Brigden, supra,* 80 Cal.App.3d at pp 390-392.)

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Here the trial court exercised its considerable discretion and followed the established norm of in-kind division of the patents, to protect Wife's interests in any future value the community assets may one day have. In his opening brief, Husband raises nine arguments, most with several subarguments, to support his proposition that the trial court

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[4] At the time *Connolly* and *Cream* were decided, Family Code section 2250 was a portion of Civil Code section 4800, subdivision (a). (Cal. Law Revision Com. Com., 29D West's Ann. Fam. Code (1994 ed.) foll. §2550, p. 4.)

erred. We condense Husband's arguments for purposes of discussion. Specific points or subarguments not mentioned in this opinion have not been overlooked, but have simply been deemed not dispositive of the case.

First, Husband argues that the trial court abused its discretion by the in-kind division of an asset which can only attain value because of Husband's postseparation efforts. Husband equates this division with an award of "a one-half interest in the fruits of Husband's postseparation efforts, which are legally his separate accumulations." The equation is not valid. The trial court awarded Wife a one-half interest in only the community property interests of the marital patents, not any postseparation property interest of Husband. While the future value of the marital patents may be contingent on postseparation technological development, that development will lead to new patents separate and distinct from those now at issue, which will be Husband's separate property and will be licensed in a package with the marital patents. Simply put, Wife has been awarded only her one-half community share in the community property patents, and not in Husband's separate property or any patents arising from his continued postseparation efforts.

Husband also contends the court abused its discretion by relying on *In re Marriage of Biddle* (1997) 52 Cal.App.4th 396; and *In re Marriage of Kilbourne* (1991) 232 Cal.App.3d 1518. *Biddle* held that a spouse's entitlement to a cash recovery in a *qui tam* action is a contingent future interest and therefore divisible community property. (*In re Marriage of Biddle, supra*,52 Cal.App.4th at pp. 399-400.) *Kilbourne* held that the trial court did not abuse its discretion by reserving jurisdiction to divide the unpaid fees of the husband's law practice. (*In re Marriage of Kilbourne, supra*, 232 Cal.App.3d at pp 1524-1525.) A lengthy discussion of these decisions is not necessary: they either support, or are not inconsistent with, the trial court's ruling.

Next, Husband contends that Family Code section 2601 and the reasoning of *Marriage of Brigden,*as well as the general principles of *Marriage of Brigden,* as well as the general principles of *Marriage of Connolly,* would have supported awarding him the patents outright. Husband argues the in-kind division "is tantamount to dividing Husband's business" and will inevitably lead to "deadlock" because of Wife's "equal authority and veto power." But Husband's research company has not been divided; rather, the company was awarded to Husband per stipulation of the parties. Wife has only been awarded her one-half share of the marital patents, an award which is well within the trial court's discretion. If wife's interest in the patents were to interfere somehow in the commercial development of the patents, the court has the power to act to modify its decision.

Moreover, there is no reasonable basis to assume deadlock. As the trial court observed, Husband's assumption of Wife's obstructionism "is the one weak leak in the argument, . . . that you are attributing to her a motive to veto or cause problems . . . [¶] There is no common sense or evidence, nor would there be any motive that I can see, why she would want to do anything to interfere with the commercial viability. To the contrary, I would think she would want to do everything to make it a success. That is the whole point of this."

Husband also argues the trial court erred by relying on the "speculative future value" of the patents to justify the in-kind division. He contends the trial court did not rely on evidence of present value – which showed the patents were worth little or nothing – but instead speculated that Husband's postseparation efforts would endow the patents with value that they presently lack. But the court did not speculate: it merely awarded Wife her one-half share in *any* future value the patents may realize. Appellant presented evidence of an imprecise value ranging from $0 to $42,241, with no one able

to estimate truly the value. While commercial value may depend upon Husband's perfecting the technology and obtaining additional patents, the marital patents would presumably be the foundation of that future work, and Wife cannot be denied her one-half share for the community effort in developing the marital patents. We observe that such commercial value may not depend on Husband's future work at all: there is substantial evidence in the record that the marital patents could become valuable by the technological advancements of researchers other than Husband. The trial court properly made a division of the ownership interests of the patents and retained jurisdiction to a time when their unrealized value can be reasonably ascertained.

Moreover, courts can divide community assets in-kind without a determination of present value. (See *In re Marriage of Brown* (1976) 15 Cal.3d 838, 848; *In re Marriage of Bergman* (1985) 168 Cal.App.3d 742, 758.) Indeed, in a case cited by Husband, a Kansas court has held that patents may be divided without a determination of present value. (*Matter of Marriage of Monslow* (Kan. 1996) 912 P.2d 735, 746-747.)[5]

Husband briefly argues that the patents are not property interests based on future contingencies, but are mere expectancies and thus are not divisible community property. (See *In re Marriage of Brown, supra,* 15 Cal.3d at pp. 844-845.) This argument is inconsistent with Husband's concessions below that the patents are community property. This argument is also inconsistent with the law of California and of other states that patents, even without present value, are divisible – albeit intangible – assets of the marital

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[5] In its discretion, the trial court in *Monslow* awarded complete ownership in the patents to the spouse who perfected them, and awarded the other spouse a share in future income. As we read *Monslow*, this discretionary division was not an inevitable result of the court's conclusion that patents could be divided without a determination of present value.

community. (See *Lorraine v. Lorraine, supra,* 8 Cal.App.2d at p. 701; *Matter of Marriage of Monslow, supra,* 912 P.2d at pp. 744-747, and cases cited therein; cf.. *In re Marriage of Worth, supra,* 195 Cal.App.3d at pp 774-775 [copyright obtained during marriage is intangible community property asset].)

Husband contends at some length that the trial court should have used one of the methods of computing an equalizing payment to Wife that Husband outlined in his "Settlement Offers" document. But the court acted well within its discretion and was not obligated to use any particular form of division proffered by Husband. Moreover, the authorities cited by Husband to support his argument are based on unique facts (see, e.g., *In re Marriage of Zaentz* (1990) 218 Cal.App.3d 154), involve methods of valuation of community assets not pertinent to the present case, or are otherwise not substantially instructive. No case cited by Husband shows the trial court in this case abused its discretion.[6]

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[6] Husband's considerable reliance on *Hazard v. Hazard* (Tenn.App. 1991) 833 S.W.2d 911, is misplaced. In that case the husband, a medical doctor, had "designed and developed" a medical device which had been taken off the market due to a patient death, and whose "future economic value . . .[was] not at present ascertainable." (833 S.W.2d at p. 913.) The trial court awarded the wife 20 percent of the royalties, licenses and sales of the device. (Ibid.) In affirming, the Court of Appeals of Tennessee – in a very brief discussion – found the device a marital asset subject to division, and concluded that the 20 percent share of future income was "an equitable method of making a division of this particular asset." (833 S.W.2d at P. 916.)

It is not clear from the opinion whether the husband had obtained a patent on the device. Furthermore, although the trial court divided the value of the husband's medical practice in half, it is not even clear from the opinion whether Tennessee is a community property state. As far as we know, it is not. (See *Rodrigue v. Rodrigue* (5th Cir. 2000) 218 F.3d 432, 441 &. fn. 42 [identifying eight states – Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington – as "presently hav[ing] some version of [community] property regimes"].) In any event, the Tennessee appellate court's terse affirmance of a particular division as "equitable" does not dictate a reversal of the California trial court in the case before us.

Next, Husband makes three related arguments. He complains the trial court improperly reserved jurisdiction for an indefinite period; that the court failed "to make a clean break between the parties"; and that the court has unduly limited Husband's "authority over his business."

While a court may not reserve open-ended jurisdiction to divide a community asset at some later date (see *In re Marriage of Bergman, supra,* 168 Cal.App.3d at pp. 755-757, 755 fn. 10; see also *In re Marriage of Kilbourne, supra,* 232 Cal.App.3d at p. 1525), that is not what the trial court did in this case. The court divided the community assets of the four patents, and reserved jurisdiction only to divide the *benefits* of those interests – i.e., income from the patents should commercial viability be achieved – at a future date. This procedure is appropriate. (See *In re Marriage of Bergman, supra,*168 Cal.App.3d at p. 755, fn.. 10, 758.)

By the same token the court's proper reservation of jurisdiction cannot be assailed as a failure "to make a clean break" among the parties. Husband apparently objects to boilerplate provisions in the trial court's ruling which prevent either party from, inter alia, transferring or disposing of any interest in the marital patents, and which require the parties to exchange certain information regarding any licensing of the patents, and to cooperate to sign the appropriate documents to register their joint ownership interests with the United States Patents Office. These provisions are standard, proper and well within the trial court's discretion. If respondent were to impede the development of these community assets, the court has the power to take appropriate action.

The trial court has not interfered with the operation of Husband's business. As we have noted, the award to Wife of the one-half share of the community patents in no way affects the present operation or management of Husband's research lab. There is no indication the Wife's co-ownership affects Husband's relationship with other inventors who are working

with him on the patents – if only for the reason that Husband's current work, by definition, is leading to new technology which will result in new patents, and which will by Husband's own testimony not alter or affect the rights protected by the marital patents.[7]

Finally, Husband invokes federal patent law. He contends that the trial court's award of one-half interest in the marital patents to Wife violates federal law – specifically, the patents and copyrights clause (U.S. Const., art. I, § 8, cl. 8) and the federal patent statutes (35 U.S.C. § 1 et seq.). The premise of Husband's argument is that under federal patent law he would be regarded as the sole owner of the community property patents.

But in the analogous area of community property ownership interests in copyrights, we have previously held that federal law does not preempt California community property law. (*In re Marriage of Worth, supra,* 195 Cal.App.3d at pp. 776-778.) While seemingly acknowledging the validity of the *Worth* holding Husband claims that the trial court's ruling has "destroy[ed] the advantages of the monopoly" created by the patents and thus fallen afoul of federal patent law. (See *Farmland Irrigation Co. v. Dopplmaier* (1957) 48 Cal.2d 208, 220.) Husband claims the co-ownership impairs the value of the patents and may hinder commercial exploitation of their technology. To the contrary, there is no evidence of impairment of value and little but speculation to support

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[7] In his opening brief, appellant briefly argues he "should be given full authority to manage the patents." We can find nowhere in the record any explicit request by Husband that, should the trial court award Wife an undivided one-half interest in the patents, Husband be given full managerial control. In any case Husband's appellate request for management of the patents is coupled with a request that "Wife's name not be added to [the] title[s]" of the patents, a claim which is tantamount to a derogation of Wife's ownership interest, which interest we now uphold.

Husband's claim that Wife's co-ownership of the present patents will frustrate the commercial development of his future work.[8]

Husband relies on *Rodrigue v. Rodrigue* (E.D.La. 1999) 55 F.Supp.2d 534, 536, which held that federal copyright law preempted Louisiana community property law regarding copyright ownership. The federal district court noted there is substantial commentary critical of the *Worth* decision. (55 F.Supp.2d at 537, fn. 2; see, e.g., Polacheck, *The "Un-Worth-y Decision: The Characterization of a Copyright as Community Property"* (1994) 17 Hastings Comm/Ent L.J. 601, 614-626; 1 Nimmer et al., Nimmer on Copyright (2000) §§ 6A.03[B], 6A.03[C], 6A.04, pp. 6A-17 - 6A-30.) The court ruled that federal law preempted state community property law. (55 F.Supp.2d at pp. 546-547.) But the district court was reversed by the Fifth Circuit, which held that federal law did not preempt all community ownership interests, and the non-authoring spouse was entitled to an undivided half-interest in all the economic benefits of community copyrights. (*Rodrigue v. Rodrigue, supra,* 218 F.3d at pp. 439-440, 442-443.)

We are persuaded that despite scholarly criticism, *Marriage of Worth* controls. Federal law does not preempt California community property law regarding the ownership of community property patents under the facts of this case, and a family law court may award an equal, undivided interest in a community property patent to the spouse who did not perfect the patent. Under the unique facts of this case where the value of the patents is unknown community property

---

[8] Husband apparently believes the "negative" attitude of a prospective licensee toward co-ownership may hinder the licensing of a packet of the present patents with any new ones. But beyond the general notion that a prospective licensee would rather deal with one owner than two, there is no substantial evidence that co-ownership would in fact hinder or prevent such licensing -- particularly if Husband develops lucrative technologies with major commercial applications.

interests can coexist with federal patent law under the retained jurisdiction of the trial court. This case does not present a direct and irreconcilable clash between state and federal law warranting preemption. The trial court's decision does not place stumbling blocks in the way of fostering creative inventiveness.

In conclusion, we see no error in the trial court's ruling, and find none of Husband's contentions persuasive.

III. DISPOSITION

The judgment is affirmed.

_____

Marchand, J.

We concur:

_____

Stein, Acting PJ

_____

Stager, J.

DOCUMENT 7

Review Denied by California Supreme Court

Court of Appeal, First Appellate District, Division One - No. A090448

S098045

IN THE SUPREME COURT OF CALIFORNIA

EN BANC

SUPREME COURT
FILED
AUG 15 2001
Frederick K. Ohirich Clerk
DEPUTY

In re the Marriage of NANCY WERES

NANCY WERES, Respondent,

v.

OLEH WERES, Appellant.

Petition for review DENIED.

George, C.J., and Werdegar, J., were absent and did not participate.

CHIN

Acting Chief Justice

Supreme Court, U.S.
FILED
FEB 12 2002
CLERK

No. 01-1041

IN THE

Supreme Court of the United States

OLEH WERES,

Petitioner,

v.

NANCY WERES,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE FIRST DISTRICT COURT OF APPEAL FOR THE STATE OF CALIFORNIA

BRIEF IN OPPOSITION

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1998

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SUMMARY OF ARGUMENT

Respondent, NANCY WERES, hereby requests this Court deny the Petition for a Writ of Certiorari filed by OLEH WERES seeking a review of the Decision of the First District Court of Appeal for the State of California issued on April 23, 2001. Respondent respectfully submits that it has long been the rule that issues of ownership of patents are properly a matter of state law and not subject to Federal preemption. The Fifth Circuit decision relied upon by Petitioner and its apparent conflict with a California Court of Appeal decision deals specifically with the issue of Federal preemption over copyrights and does not apply to the ownership of patents. Respondent also submits that the determination of ownership of patents by state courts does not interfere with national uniformity nor does it burden interstate commerce. Finally, Respondent submits that Petitioner is precluded from attacking the state court's division of these patent interests as community property, as Petitioner conceded at the time of trial that the patents were community property.

COUNTER-STATEMENT OF THE CASE

The parties were married for approximately 21½ years. Except for the issue of the division of the patent rights developed during the marriage, there were no other contested issues in the divorce proceedings between the parties. The parties reached settlement as to all other assets, including the valuations and division of real estate, a medical practice, and a sole proprietorship. (C.T., pp. 54-49.[1]) During marriage,

1. References to the Clerk's Transcript are denoted as "C.T.," and references to the Reporter's Transcript are denoted as "R.T."

Petitioner terminated his employment and began a sole proprietorship. The focus of this business was to develop technologies that would be patentable and hopefully provide substantial benefits for the parties. Under California community property law, the community is viewed as a partnership in which spouses are equal partners and, as such, each equally contributes his or her industry to the community's prosperity and possesses an equal right to succeed to the property after dissolution. *In Re: Marriage of Brigden*, 80 Cal. App. 3d 380, 389 (1978). Under the California community property system, spouses are seen as contributing equally to the acquisition of an asset, regardless of the actual division of labor in the marriage, and regardless of which spouse actually "earned" the property. *Brigden, supra*, at page 389. The four patents and the claims under one patent application which were divided by the trial court's judgment were the result of work entirely performed during the parties' marriage.[2] Witnesses called by Petitioner testified the marital patents were developed all prior to the date of separation. (R.T., 67:6-11.)

Despite Petitioner's continued insistence that the patents are somehow dependent on his post-separation efforts, evidence to the contrary was introduced at trial and the trial court found to the contrary.[3] It was admitted in Petitioner's

2. Petitioner's Trial Brief stated: "There is no dispute, the four patents in question are based on efforts during the marriage." (C.T., 92.)

3. Petitioner testified that even if he stopped working on the technology related to the patents, some of the patents would probably have value. (R.T. 281:5-10.) He further testified that none of the work he had done after separation in this field is actually on the existing marital patents. (R.T. 283:5-19.) Petitioner further testified (Cont'd)

Opening Brief before the California Court of Appeal that patents resulting from post-separation efforts will not embody any of the community patents, nor will it enlarge their legal status.[4]

Despite Petitioner's assertion that the trial court's orders will create some burden in identifying benefits received for the marital patents, evidence established that even if Respondent was not a co-owner, an allocation would still have to be done as between the marital patents and any post-separation patents. Petitioner testified that if the technology protected by the marital patents is ultimately bundled with other patents (either perfected by Petitioner or others), there will have to be some kind of allocation done as to the benefits received because existing agreements with third parties govern the sharing of benefits from the marital patents only. (R.T. 526:1-527:24.)

At trial the Petitioner conceded that the patents at issue were, in fact, community property. (R.T. 510:22.) The Appellant's Trial Brief at page 3 stated:

> It is submitted that at the current time the parties have agreed that the patents as they existed on February 10, 1996 [the date of separation] are community property. (C.T., 89.)

(Cont'd)
the work done after separation in the area of this technology, including the 3,050 hours contained in Appellant's schedules, does not change any of the rights granted under the marital patents. (R.T. 286:27-287:10.)

4. See Appellant's Opening Brief, fn. 7, p. 29.

The Brief went on to state:

> The fact that patents are community assets which may be divided as community property is well settled law and not disputed herein by Husband. . . . (C.T., 91.)

The trial court found that the approach to valuation urged by Petitioner (namely, reimbursing the community for some of the efforts and expenditures involved in developing the patents) did not reflect the true fair market value of the community property patent rights.[5] The court determined that it would be equitable to equally divide the parties' interest in the patents developed during the marriage, with the court reserving jurisdiction over the allocation and distribution of any benefits that might be received as a result of those patent rights.[6] The Further Judgment on Reserved Issues awarded each party a one-half interest as tenants in common to any and all rights, title and interest that either party is entitled to with respect to the various patents and the patent application. The court ordered each party to sign any documents necessary or convenient to register the ownership interests with the United States Patent Office, and required each party to keep the other informed concerning offers to purchase, license or pay consideration related to the interests in the marital patents. The Judgment went on to restrain the parties from disposing of rights that would affect the other party without the written consent of the other party or an order of court.

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5. The trial court's Statement of Decision is included with the Petition as Document 3, commencing at p. 48.

6. See Further Judgment on Reserved Issues. The Further Judgment on Reserved Issues is also included with the Petition as Document 4, commencing at p. 53.

The California Court of Appeal, First Appellate District, affirmed the trial court. The Court of Appeal first noted that patents obtained during the life of the marital community are community property, relying on *Lorraine v. Lorraine*, 8 Cal. App. 2d 687, 692 (1935). The Court of Appeal rejected Petitioner's argument that the trial court's judgment somehow provided Respondent with an interest in the fruits of the Petitioner's post-separation efforts. The Court of Appeal noted that the trial court had awarded wife only a one-half interest in the marital patents, not in any separate property interest of the husband.[7] The Court of Appeal also rejected Petitioner's contention that the division-in-kind of the patent interests would lead to some sort of deadlock because of wife's equal authority over the patent interests. The Court of Appeal found no evidence of impairment of value by this division and little but speculation to support Petitioner's claim that Respondent's co-ownership of the patents would frustrate their commercial development.[8] Finally, the Court of Appeal noted that while the Petitioner briefly argued on appeal that he should be given full authority to manage the patents, Petitioner had nowhere in the record made any explicit request that the trial court should award Respondent an undivided one-half interest in the patents while providing Petitioner with full managerial control. The Court of Appeal concluded that Petitioner's request for exclusive management of the patents coupled with a request that Respondent's name not be added to the title was a derogation of Respondent's

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7. See Decision of the California Court of Appeal attached to Petition for Writ as Document 6, commencing at p. 67, at p. 74.

8. See Appendix to Petition, pp. 79 and 80.

equal present and existing ownership interest in the marital patents, which by implication would result in an unequal division of the parties' property.[9]

REASONS FOR DENYING THE WRIT

I. THE DECISION BELOW DOES NOT RAISE THE QUESTION PRESENTED BY THE PETITION

A. The Issue in this Action Is the State Court's Determination of Ownership of Certain Patents, as Between a Husband and Wife. No Issue Concerning Federal Preemption Over Copyrights Is Presented.

The question presented in the Petition seems to be whether or not the court should resolve an apparent conflict about Federal preemption over copyrights. The assets at issue in this case are patents, not copyrights. As a result, the issue raised by the ruling in *Rodrigue v. Rodrigue*, 218 F.3d 432 (5th Cir. 2000), and its perceived conflict with a California Court of Appeal decision in *In Re: Marriage of Worth*, 195 Cal. App. 3d 768 (1987), both of which deal only with copyrights, is not present in this case.

B. The Law Regarding Federal Preemption Concerning Copyrights Is Specific to Copyrights and Not Applicable to the Ownership of Patents

The decision upon which the Petitioner so heavily relies, *Rodrigue v. Rodrigue*, *supra*, deals with the question of whether or not Federal preemption exists concerning the

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9. See Decision of the California Court of Appeal, Appendix to Petition, p. 79.

ownership and control of a copyright developed by a spouse during marriage.

The court in *Rodrigue* expressly relied on the statutory provisions relating to the exclusivity of copyrights found at 17 U.S.C. §§ 301(a) and 301(b). The statutory provisions for copyrights specify that a copyright vests initially in the author and specifies the scope of Federal preemption. The Copyright Act goes on to provide that the preemptive effect acknowledges that state law continues to operate unless there is a direct and irreconcilable clash between a state law right and an *exclusive* right under the Copyright Act with which the state law right is equivalent. Under that specific statutory framework, the *Rodrigue* court determined that Federal preemption applied only to a portion of the bundle of rights in a copyright and that there was no Federal preemption concerning the division of the fruits or benefits resulting from the ownership of a copyright. As discussed below, this rule is not applicable to the ownership of patents.

II. THE QUESTION OF OWNERSHIP OF A PATENT IS PROPERLY A QUESTION OF STATE LAW AND NOT THE SUBJECT OF FEDERAL PREEMPTION

The law of patents recognizes the concept of joint ownership. 35 U.S.C. § 262. The statutory framework recognizes that patents have the attributes of personal property and may be assigned. 35 U.S.C. § 261. A fundamental difference between copyright law and patent law is that, with respect to patents, the issue of inventorship and ownership are separate issues. *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1248, 26 USPQ2d 1572 (Fed. Cir 1993). Inventorship is a question of who actually invented the subject matter claimed in a patent, whereas

ownership is a question of who owns legal title to the subject matter claimed in the patent. Who ultimately possesses ownership rights in that subject matter has no bearing whatsoever on the question of who actually invented the subject matter. *Beech Aircraft Corp.*, *supra*, at 1248.

While there is no question that a person's status as an inventor is uniquely a question of Federal law, *University of Colorado Foundation, Inc. v. American Cyanimid Co.*, 196 F.3d 1366, 52 USPQ2d 1801 (Fed. Cir. 1999), *cert. denied*, 529 U.S. 1130 (2000). Issues concerning ownership of patents which are not based on a claim of inventorship have always been a question of state law. In the case of *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.2d 1567, 1572, 42 USPQ2d 1119, 1123 (1997), the United States Court of Appeals Federal Circuit held:

> It may seem strange at first blush that the question of whether a patent is valid and infringed ordinarily is one for federal courts, while the question of who owns the patent rights and on what terms typically is a question exclusively for state courts. Yet that has long been the law. It is well settled that if the patentee claims a cause of action based on rights created by a contract, or on the common law of torts, the case is not one "arising under" the patent laws.

The court in *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 42 USPQ2d 1119, 1123 (1997), relied on the following decisions: *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912) (state court has jurisdiction for suit for specific performance of contract to assign patent). *Geneva Furniture Mfg. Co. v. S. Karpen Bros.*, 238 U.S. 254 (1915)

(upholding federal jurisdiction over part of a bill charging contributory infringement; rest of bill not sustainable because based on contract). *Becher v. Contoure Labs., Inc.*, 279 U.S. 388 (1929) (explaining why state court has jurisdiction over bill to compel assignment of a patent tortuously secured by patentee).

This long-standing rule that questions of ownership are properly state court questions has been followed in a number of cases. In *Moss v. Moss Tubes*, 44 USPQ2d 1309, 1311 (N.D.N.Y. 1997), the court issued an order staying a patent infringement suit until a state divorce court could determine the disposition of the marital patent, recognizing that the state court's determination of who, as between husband and wife, would own the marital patent would impact whether or not the plaintiff would have standing to continue the infringement proceeding. The court noted:

> Furthermore, although a cause of action for patent infringement is governed exclusively by federal law, *see United States Const., art. I., Section 8, cl. 8*; *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 [140 USPQ 524] (1964), the issue of ownership of the patents is governed by state law. *Goldwater [sic] v. Smith Corona Corp.*, 817 F. Supp. 263, 275 (D. Conn. 1993), *aff'd*, 26 F.3d 137 (Fed. Cir. 1994). *Id.* at 1311.

The issue presented in *Goldwasser v. Smith Corona Corp.*, 817 F. Supp. 263, 275 (D. Conn. 1993), *aff'd*, 26 F.3d 137 (Fed. Cir. 1994), was who owned a patent as between an employer and an employee by virtue of an employee confidential information and invention agreement. The court ruled that the determination of that issue of ownership is a question of state law.

In *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 45 USPQ2d 1545 (Fed. Cir. 1998), the court noted that questions of ownership are distinct from questions of inventorship. The court then held that questions of ownership arising out of contracts are controlled by state law. *Id.*, at 1466. Even in the dissent, the court noted

> The jurisprudence governing property interests is generally a matter of state law. Even when the property is the creation of federal statute, private rights are usually defined by state laws of property. This has long been recognized with respect to patent ownership and transfers. *Id.*, at 1471.

The issue of ownership presented by this case is not an issue of ownership based upon the determination of inventorship, which would be a question of federal law. To the contrary, the question of ownership in this case is based upon Respondent's status as a spouse at the time the patents were created. This issue of ownership is properly a question of state law and is not preempted by federal law.

III. THE PETITIONER CONCEDED AT THE TIME OF TRIAL THAT THE PATENTS INVOLVED IN THIS ACTION WERE COMMUNITY PROPERTY

The Petitioner argues that the state court should not be permitted to determine whether the patents are community property. However, as noted by the Court of Appeal, Petitioner, at the time of trial, conceded the patents were community property.[10] In this case, the trial court only made

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10. See Appendix to the Petition, Document 6, Decision of the Court of Appeal, p. 76.

a determination of how to divide that which the parties had agreed was community property. Petitioner's concession that these patents were community property is disclosed in the record on appeal. In discussing the nature of the patent rights, Petitioner's counsel admitted they were community property. Petitioner's counsel stated:

> Ms. Young: We have admitted they're community property. (R.T., 510/22.)

This admission was also part of Petitioner's Trial Brief. The Trial Brief stated at page 3:

> It is submitted that at the current time, the parties have agreed that the patents as they existed on February, 10 1996 [the date of separation] are community property. (C.T., 89.)

The Trial Brief went on to state:

> The fact that the patents are community assets which may be divided as community property is well settled law and not disputed herein by Husband. . . . (C.T., 91.)

The issue of whether or not the patents were community property pursuant to the laws of the State of California was never questioned at trial. The only issue raised at trial was whether the patents, which the parties admitted were community property, should be divided in-kind or whether they should be awarded to one spouse with offsetting property to the other.

IV. THE DETERMINATION OF OWNERSHIP OF A PATENT BY A STATE COURT DOES NOT CONFLICT WITH FEDERAL STATUTES

As discussed above, the question of ownership of the rights embodied in the patents is properly a subject for determination by state courts and is not preempted by federal law. Federal preemption relating to patents is limited to the issues of inventorship, validity and patent infringement. *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 [140 USPQ 524] (1964). Federal courts have long recognized that questions of ownership are separate from questions of inventorship. *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1248, 26 USPQ2d 1572 (Fed. Cir 1993). Courts have long held that questions of ownership that do not arise directly from inventorship are properly questions of state law. *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 45 USPQ2d 1545 (Fed. Cir. 1998); *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.2d 1567, 1572, 42 USPQ2d 1119, 1123 (1997); *Goldwasser v. Smith Corona Corp.*, 817 F. Supp. 263, 275 (D. Conn. 1993), *aff'd*, 26 F.3d 137 (Fed. Cir. 1994); and *Moss v. Moss Tubes*, 44 USPQ2d 1309, 1311 (N.D.N.Y. 1997).

V. THE DETERMINATION OF OWNERSHIP OF A PATENT DOES NOT INTERFERE WITH NATIONAL UNIFORMITY GOVERNING THE OWNERSHIP OF PATENTS NOR DOES IT BURDEN INTERSTATE COMMERCE

Issues of national uniformity concerning the ownership of patents and any burden on interstate commerce are resolved by 35 U.S.C. Section 261, which provides:

> An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

As a result, purchasers or mortgagors for value may rely on this uniform system for the recordation of ownership interests with the patent and trademark office and, for that reason, no burden on interstate commerce exists.

VI. THE DIVISION OF THE PARTIES' INTERESTS IN THESE PATENTS DOES NOT AFFECT THE RIGHTS OF THIRD PARTIES

The decision in the court below only divided the parties' interests in the patents. The trial court's judgment, which is included with the Petition as Document 4, commencing at page 53, only divided those interests that the parties to the proceeding were entitled to. By way of example, the judgment provided:

> 1. Petitioner is hereby awarded an undivided one-half (½) interest as tenant-in-common in any and all rights, title and interest that either party is entitled to with respect to the following patents: . . .

The Court's Statement of Decision which is included with the Petition as Document 3, commencing at line 48, specifically notes that the rights of the parties are ". . . subject to the obligation to pay a portion of certain revenues to

Mr. Hoffman that are obtained from commercialization of the technology reflected in the patents." With respect to another patent and the patent application, the Statement of Decision reflects that the parties' interest is only a fractional interest. Whatever rights and obligations the parties have to others and whatever rights third parties may have in the patents or any benefits arising therefrom are unaffected by the trial court's decision.

CONCLUSION

For all the foregoing reasons, Respondent respectfully requests that this Honorable Court deny the Petition.

Respectfully submitted,

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Supreme Court, U.S.
FILED
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- No. 01-1041 -

IN THE

Supreme Court of the United States

OCTOBER TERM, 2001

OLEH WERES

Petitioner,

v.

NANCY WERES

Respondent.

On Petition for a Writ of Certiorari to the California Court of Appeal, District 1

REPLY TO BRIEF IN OPPOSITION

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In re Marriage of Worth, 195 Cal.App.3d 768 (1987) 5, 7

The sections in this *Reply* correspond to Sections in Respondent's *Brief in Opposition*.

SUMMARY OF PETITIONER'S REPLY

While the incidents of ownership of patents are governed by state law, the creation and initial ownership of the patent right are governed by the Constitution, Art. 1, §8, cl. 8, and are thereby Federal questions. Because copyrights flow from the same Clause, decisional law related to the creation and initial ownership of copyrights is directly and seminally relevant to patents as well.

Allowing States to decide questions related to the creation and initial ownership of patents and copyrights inevitably frustrates national uniformity and thereby burdens interstate commerce.

The applicable federal law was defined in *Rodrigue* v. *Rodrigue,* 218 F.3d 432 (5th Cir. 2000) but was inoppositely applied to the instant case by the California Court of Appeal in its decision on the merits. The California Supreme Court affirmed by denying review. Misapplication of the federal law by the California courts is the hallmark and essence of Petitioner's appeal. Petitioner's prayer is unchanged throughout the appeal.

RESPONDENT HAS MISSTATED THE CASE

Throughout this case, Respondent's position has been based on the assumption that once a patent application is filed, the work is all done, and the inventor can sit back and

wait for the money to roll in. The courts below accepted this naive theory, which is reflected in Respondent's *Brief in Opposition*:

> Despite Petitioner's continued insistence that the patents are somehow dependant on his post-separation efforts, evidence to the contrary was introduced at trial and the trial court found to the contrary. (*Id.* at 2)

First, the Court is asked to take judicial notice of the fact that patents require payment of maintenance fees and, if prior art is subsequently discovered, may require reexamination. Suing for infringement is an expensive proposition, especially if the infringer challenges the validity of the patent.

Second, obtaining a patent and making money from it are two very different things. Petitioner's electrochemical patents were based on laboratory results only, and the technology was still far from commercialization when the trial took place 28 months after separation. The power plant technology is similarly far from producing a profit.

Unchallenged evidence presented at trial showed that Petitioner's efforts since separation have been devoted to perfecting the technology in the patents and moving it toward commercial exploitation. While Petitioner's post-separation efforts may not change the patents as such, they can certainly change the <u>value</u> of the patents and enable the benefits that may eventually flow from the patents.

<u>If</u> the patents had been already licensed and producing royalties at the date of separation, the decisions below would have been fair and reasonable (albeit legally unsound). However, with the value of the patents utterly dependent upon Petitioner's continued post-separation efforts, Petitioner's settlement offers represent the only reasonable options: give Petitioner unclouded ownership of

the patents, while requiring him to (a) reimburse the community for efforts and expenses sunk in the patents, or (b) have Petitioner give Respondent a fraction of future benefits from the patents which fairly reflects the community's contribution to realizing those benefits. All cases on point from other states have followed the second approach in regards to patents and copyrights both, as did the 5th Circuit in *Rodrigue* v. *Rodrigue, supra,* 218 F.3d 432 [*Rodrigue-2*].

There was much speculation below about the "value" of the patents, but no evidence to support a value much different from zero. Such "evidence of value" was artfully quoted in *Respondent's Brief in Opposition* in fn. 3 on pp. 2-3. In fact, Petitioner had testified:

(a) The patents probably would not have any value if he stopped working on the technology[1] ;

(b) While not working on the patents *per se*, Petitioner has continued working to perfect and commercialize the technology therein[2] ;

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[1] Petitioner's actual testimony was:

Q. If you stopped working on this technology right now, do you think there would ever be any future value to those four patents?

A. The electrochemical [patents], probably not. The power plant [patents], perhaps, because other people are involved in research and development outside of Sonoma Research. (R.T. 281:5-10)

The projects involving "other people" resulted from Petitioner's postseparation efforts to secure the funding. (RT 107:9-108:5)

[2] Petitioner's actual testimony was:

Q. Isn't it true then that all of the work that you've done from date of separation doesn't change the claims under the existing patents as of February 10th, 1996?

A. No.

Q. So all of the work that you've done since then is not on the existing patents, correct?

(c) While Petitioner's thousands of hours of post-separation effort would not change any of the rights under the marital patents, Petitioner's post-separation effort would certainly change the value of the patents.[3]

RESPONDENT HAS FAILED TO ADDRESS PETITIONER'S REASONS FOR GRANTING THE WRIT

I. The Petition is Fully Responsive to the Decision Below

A. Respondent and the Courts Below Relied on the Decisional Law of Copyrights

The fundamental question in the case at bench is whether a patent obtained in marriage in a community property state vests in the inventor or in the community. The grant of patents and copyrights is authorized by the Patent and Copyright Clause of the Constitution which treats them identically:

> Congress shall have the power ... to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the

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A. Correct.

Q. It happens to be similar technology?

A. Well, it happens to be technology that's covered by the original four patents." (RT 283:12-22).

[3] Petitioner's actual testimony was:

Q. But as we just discussed, that three thousand fifty hours doesn't change the rights granted under the three marital patents, correct?

A. It doesn't change the rights, but it changes the ability to market the original three marital patents profoundly. (R.T. 287:5-10)

> exclusive Right to their Respective Writings and Discoveries. (Art. 1, §8, cl. 8)

Thus, patents and copyrights are equal before the Constitution at birth, and the same law governs them at the moment of conception. In fact, several of the copyright cases on point rely on patent law, including *In re Marriage of Worth*, 195 Cal.App.3d 768 (1987) and *Rodrigue* v. *Rodrigue*, 55 F.Supp.2d 534 (E.D.La. 1999) [*Rodrigue-1*].

In the courts below, Respondent has relied heavily on *Marriage of Worth*, and should now be estopped from objecting that copyright law is irrelevant to this case. *Worth* was favorably cited seven times in *Respondent's Opening Brief* in the California Court of Appeal; for example:

> The argument that the state court has interfered with a federal right was dealt with and decided in the case of *In Re: Marriage of Worth*. There, the Court of Appeal affirmed the division of the community copyrights (which are created by the same provisions of the United States Constitution as Patents). ... (*Id.* at 43)

> In *Re: Marriage of Worth* notes that the federal constitution does not preempt a spouse in California from owning one-half (½) of a patent or copyright. (*Id.* at 44)

Because the California Court of Appeal considered the *Rodrigue* decisions and relied heavily on *Worth* in deciding the case below (as quoted in Petitioner's *Petition for Writ of Certiorari* at p. 13), Petitioner's arguments based on copyright law and *Rodrigue* are fully responsive to the decision below.

B. Respondent Suggests that the Economic Benefits of a Patent are Separate Property of the Inventor as Well as the Patent Itself

Respondent is correct in noting that in *Rodrigue-2* the Fifth Circuit relied on language that is specific to the copyright statute to conclude that, while the copyright itself is the separate property of the artist spouse, the economic benefits of the copyright are divisible community property. *Rodrigue-2* modified *Rodrigue-1*, where the District Court had relied on the decisional law of patents as well as copyrights to conclude that copyrights, including the economic benefits therefrom, are entirely separate property. By arguing that the modification ordered in *Rodrigue-2* is applicable to copyrights only, Respondent has effectively conceded that *Rodrigue-1* applies to patents while *Rodrigue-2* does not, because the patent statute contains no such language.

Applying the reasoning of *Rodrigue-1* to patents leads to the conclusion that patents, including the economic benefits therefrom, are entirely the separate property of the inventor-spouse. In that case, the ex-spouse can only expect to be reimbursed for the community's investment in the patent. Petitioner has, in fact, proposed to do so from the start, as the first of his two settlement offers (quoted in the *Petition for Writ of Certiorari*, pp. 33-36).

II Federal Law Governs the Initial Ownership of a Patent

Respondent has cited several cases which establish that incidents related to the ownership of a patent are governed by state law, and concluded her review by stating:

> The issue of ownership presented by this case is not an issue of ownership based upon the determination of inventorship, which would be a question of

federal law. ... (*Brief in Opposition*, p. 10)

In fact, the Constitution empowers Congress to grant the "exclusive Right" to the "Authors and Inventors"; thus, the initial ownership of the patent right is identical with inventorship. Transfers of ownership that occur after the patent application has been filed or after the patent has issued are indisputably governed by state law (subject to 35 U.S.C. §261), but until a written assignment has been executed, the patent or patent application is owned by the inventor(s) alone.

The underlying question in this case is whether state community property law can effect the ownership of the patent right at birth; because initial ownership is governed by the Constitution and federal statute, state law cannot effect the initial ownership of the patent.

While in *Moss v. Moss Tubes*, 44 USPQ2d 1309 (N.D.N.Y. 1997) the Federal District Court abstained from ruling on the ownership of patents obtained in marriage and left that question to be decided by the state court, in the more recent and analogous copyright case *Rodrigue* v. *Rodrigue, supra,* 218 F.3d 432 the Fifth Circuit did not abstain, and affirmed that copyrights obtained in marriage are separate property of the artist-husband. That *Moss* appears to be inconsistent with *Rodrigue* provides yet another reason why the *Writ* should be granted.

III The California Court of Appeal Decided Petitioner's Federal Law Arguments on Their Merits and That Decision is Now On Appeal

At trial, Petitioner assumed *Marriage of Worth* to be good law, and did not challenge *Worth's* central holding that a copyright or patent obtained in marriage in California is community property. At this time, Petitioner relies on the

Rodrigue decisions to argue that the patents he obtained in marriage are, in fact, his separate property, although an equitable fraction of future economic benefits from the patents might properly be awarded to Respondent as community property.

At trial, Petitioner did characterize his patents as community property, but this Court should grant the *Writ* and consider Petitioner's federal law arguments for several reasons:

1. Petitioner's prayer and proposals to settle the patent issue are unchanged from the beginning of this case.[4]
2. The *Rodrigue* decisions explicitly overruled *Marriage of Worth*, thereby changing the law. *Rodrigue-1* could not be used at trial, because it was being appealled when the instant case was tried, and *Rodrigue-2* was decided when this case was already in the California Court of Appeal.
3. Respondent made the same objection in the California Court of Appeal. That court briefly noted the objection in its decision, but considered *Rodrigue* and decided Petitioner's federal law arguments on their merits. Petitioner is now appealling that part of the California Court of Appeal's decision.

IV Respondent's Fourth Argument is Redundant to Her Second Argument and Need Not Be Addressed Again

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[4] Petitioner's offers to settle the patent issue were presented at trial in a document which was subsequently appended to *Appellant's Opening Brief* in the California Court of Appeal, and to his *Petition for Writ of Certiorari* to this Court at pp. 31-44.

V Respondent Has Failed to Respond to Petitioner's Commerce Clause Argument

Respondent argues that the fourth paragraph of 35 U.S.C. §261, which specifies the means for recording the transfer of patents, somehow remedies the burden upon commerce caused by conflicting state laws regarding the ownership of patents obtained in marriage. The procedure for recording the transfer of patents is not an issue in this case; the ownership of patents obtained in marriage is the issue.

National uniformity and unburdened commerce involving patents and copyrights require that this Court formulate a single rule that will govern the ownership of patents obtained in marriage throughout the land.

VI Respondent Has Failed to Contest that the Decisions Below Will Deny Petitioner's Coinventors What They Bargained For

At trial, Petitioner presented evidence and testified that his coinventors expect him to manage the patents for their benefit as well as his own. At trial, in the California Court of Appeal, and in his *Petition for Writ of Certiorari* before this Court (*Id.* at pp. 27-28) Petitioner has consistently argued that the decisions below, which give Respondent exactly equal authority and veto power over the patents will interfere with Petitioner's ability to carry out his obligations before his coinventors. By denying Petitioners' coinventors what they bargained for, the decisions below have violated the coinventors' Fourteenth Amendment Right of Due Process.

Respondent has failed to respond to this argument, noting instead that the courts below divided only

Petitioner's share in the patents with Respondent, and not the coinventors' share. This "response" fails to address Petitioner's argument on behalf of his coinventors. Thereby, Respondent has effectively conceded this argument.

CONCLUSION

Respondent has failed to respond to Petitioner's arguments for granting the *Writ of Certiorari.*

Petitioner respectfully asks that the *Writ* be granted.

Respectfully submitted,

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